**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, 2021**

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)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **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 20, 2021, there were 587,699,224 shares of common stock, $5.00 par value, issued and outstanding.

**THE BOEING COMPANY**

**FORM 10-Q**

**For the Quarter Ended September 30, 2021**

**INDEX**

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**Part I. Financial Information**

**Item 1. Financial Statements**

**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Operations**

(Unaudited)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *(Dollars in millions, except per share data)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Sales of products | | | **$39,224** | |  |  | | | $34,656 | |  |  | | | **$12,552** | |  |  | | | $11,402 | |  |
| Sales of services | | | **8,269** | |  |  | | | 8,198 | |  |  | | | **2,726** | |  |  | | | 2,737 | |  |
| **Total revenues** | | | **47,493** | |  |  | | | 42,854 | |  |  | | | **15,278** | |  |  | | | 14,139 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Cost of products | | | **(35,166)** | |  |  | | | (36,001) | |  |  | | | **(11,271)** | |  |  | | | (10,910) | |  |
| Cost of services | | | **(6,771)** | |  |  | | | (6,817) | |  |  | | | **(2,288)** | |  |  | | | (2,185) | |  |
| Boeing Capital interest expense | | | **(25)** | |  |  | | | (33) | |  |  | | | **(7)** | |  |  | | | (10) | |  |
| **Total costs and expenses** | | | **(41,962)** | |  |  | | | (42,851) | |  |  | | | **(13,566)** | |  |  | | | (13,105) | |  |
|  | | | **5,531** | |  |  | | | 3 | |  |  | | | **1,712** | |  |  | | | 1,034 | |  |
| Income/(loss) from operating investments, net | | | **195** | |  |  | | | (61) | |  |  | | | **120** | |  |  | | | (14) | |  |
| General and administrative expense | | | **(3,169)** | |  |  | | | (2,989) | |  |  | | | **(1,097)** | |  |  | | | (955) | |  |
| Research and development expense, net | | | **(1,571)** | |  |  | | | (1,871) | |  |  | | | **(575)** | |  |  | | | (574) | |  |
| Gain on dispositions, net | | | **283** | |  |  | | | 200 | |  |  | | | **169** | |  |  | | | 108 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Earnings/(loss) from operations** | | | **1,269** | |  |  | | | (4,718) | |  |  | | | **329** | |  |  | | | (401) | |  |
| Other income, net | | | **419** | |  |  | | | 325 | |  |  | | | **30** | |  |  | | | 119 | |  |
| Interest and debt expense | | | **(2,021)** | |  |  | | | (1,458) | |  |  | | | **(669)** | |  |  | | | (643) | |  |
| **Loss before income taxes** | | | **(333)** | |  |  | | | (5,851) | |  |  | | | **(310)** | |  |  | | | (925) | |  |
| Income tax benefit | | | **207** | |  |  | | | 2,349 | |  |  | | | **178** | |  |  | | | 459 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Net loss** | | | **(126)** | |  |  | | | (3,502) | |  |  | | | **(132)** | |  |  | | | (466) | |  |
| Less: net loss attributable to noncontrolling interest | | | **(67)** | |  |  | | | (49) | |  |  | | | **(23)** | |  |  | | | (17) | |  |
| **Net loss attributable to Boeing Shareholders** | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Basic loss per share** | | | **($0.10)** | |  |  | | | ($6.10) | |  |  | | | **($0.19)** | |  |  | | | ($0.79) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Diluted loss per share** | | | **($0.10)** | |  |  | | | ($6.10) | |  |  | | | **($0.19)** | |  |  | | | ($0.79) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Weighted average diluted shares (millions)** | | | **587.3** | | |  | | | 566.3 | | |  | | | **589.0** | | |  | | | 566.6 | | |

See Notes to the Condensed Consolidated Financial Statements.

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**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** | | | | | | | | |
|  | | | **2021** | |  |  | | | 2020 | |  |  | | | **2021** | |  |  | | | 2020 | |  |
| **Net loss** | | | **($126)** | |  |  | | | ($3,502) | |  |  | | | **($132)** | |  |  | | | ($466) | |  |
| Other comprehensive income, net of tax: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Currency translation adjustments | | | **(63)** | |  |  | | | 15 | |  |  | | | **(41)** | |  |  | | | 48 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Unrealized gain/(loss) on derivative instruments: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Unrealized gain/(loss) arising during period, net of tax of ($18), $31, ($1) and ($23) | | | **64** | |  |  | | | (107) | |  |  | | | **(1)** | |  |  | | | 79 | |  |
| Reclassification adjustment for (gains)/losses included in net loss, net of tax of $2, ($6), $2 and ($2) | | | **(6)** | |  |  | | | 20 | |  |  | | | **(4)** | |  |  | | | 8 | |  |
| Total unrealized gain/(loss) on derivative instruments, net of tax | | | **58** | |  |  | | | (87) | |  |  | | | **(5)** | |  |  | | | 87 | |  |
| Defined benefit pension plans and other postretirement benefits: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Prior service credit arising during the period, net of tax of $0, ($4), $0 and ($4) | | |  | | |  | | | 13 | |  |  | | |  | | |  | | | 13 | |  |
| Amortization of prior service credits included in net periodic pension cost, net of tax of $18, $22, $6 and $10 | | | **(68)** | |  |  | | | (67) | |  |  | | | **(23)** | |  |  | | | (22) | |  |
| Net actuarial gain/(loss) arising during the period, net of tax of ($106), $19, ($104) and $16 | | | **1,551** | |  |  | | | (65) | |  |  | | | **1,544** | |  |  | | | (53) | |  |
| Amortization of actuarial losses included in net periodic pension cost, net of tax of ($182), ($179), ($60) and ($76) | | | **690** | |  |  | | | 562 | |  |  | | | **227** | |  |  | | | 172 | |  |
| Settlements included in net loss, net of tax of ($11), ($1), ($10) and $0 | | | **145** | |  |  | | | 3 | |  |  | | | **142** | |  |  | | | 1 | |  |
| Pension and postretirement cost related to our equity method investments, net of tax of ($1), $0, $0 and $0 | | | **2** | |  |  | | |  | | |  | | | **(1)** | |  |  | | |  | | |
| Total defined benefit pension plans and other postretirement benefits, net of tax | | | **2,320** | |  |  | | | 446 | |  |  | | | **1,889** | |  |  | | | 111 | |  |
| **Other comprehensive income, net of tax** | | | **2,315** | |  |  | | | 374 | |  |  | | | **1,843** | |  |  | | | 246 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Comprehensive income/(loss), net of tax** | | | **2,189** | |  |  | | | (3,128) | |  |  | | | **1,711** | |  |  | | | (220) | |  |
| Less: Comprehensive loss related to noncontrolling interest | | | **(67)** | |  |  | | | (49) | |  |  | | | **(23)** | |  |  | | | (17) | |  |
| **Comprehensive income/(loss) attributable to Boeing Shareholders, net of tax** | | | **$2,256** | |  |  | | | ($3,079) | |  |  | | | **$1,734** | |  |  | | | ($203) | |  |

See Notes to the Condensed Consolidated Financial Statements.

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**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Financial Position**

(Unaudited)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| **Assets** | | |  | | |  | | |  | | |
| Cash and cash equivalents | | | **$9,764** | |  |  | | | $7,752 | |  |
| Short-term and other investments | | | **10,231** | |  |  | | | 17,838 | |  |
| Accounts receivable, net | | | **2,247** | |  |  | | | 1,955 | |  |
| Unbilled receivables, net | | | **10,009** | |  |  | | | 7,995 | |  |
| Current portion of customer financing, net | | | **76** | |  |  | | | 101 | |  |
| Inventories | | | **81,897** | |  |  | | | 81,715 | |  |
| Other current assets, net | | | **2,664** | |  |  | | | 4,286 | |  |
| **Total current assets** | | | **116,888** | |  |  | | | 121,642 | |  |
| Customer financing, net | | | **1,795** | |  |  | | | 1,936 | |  |
| Property, plant and equipment, net of accumulated depreciation of $20,442 and $20,507 | | | **11,113** | |  |  | | | 11,820 | |  |
| Goodwill | | | **8,070** | |  |  | | | 8,081 | |  |
| Acquired intangible assets, net | | | **2,631** | |  |  | | | 2,843 | |  |
| Deferred income taxes | | | **74** | |  |  | | | 86 | |  |
| Investments | | | **963** | |  |  | | | 1,016 | |  |
| Other assets, net of accumulated amortization of $916 and $729 | | | **5,312** | |  |  | | | 4,712 | |  |
| **Total assets** | | | **$146,846** | |  |  | | | $152,136 | |  |
| **Liabilities and equity** | | |  | | |  | | |  | | |
| Accounts payable | | | **$10,151** | |  |  | | | $12,928 | |  |
| Accrued liabilities | | | **18,974** | |  |  | | | 22,171 | |  |
| Advances and progress billings | | | **51,269** | |  |  | | | 50,488 | |  |
| Short-term debt and current portion of long-term debt | | | **5,377** | |  |  | | | 1,693 | |  |
| **Total current liabilities** | | | **85,771** | |  |  | | | 87,280 | |  |
| Deferred income taxes | | | **1,185** | |  |  | | | 1,010 | |  |
| Accrued retiree health care | | | **3,957** | |  |  | | | 4,137 | |  |
| Accrued pension plan liability, net | | | **11,435** | |  |  | | | 14,408 | |  |
| Other long-term liabilities | | | **1,722** | |  |  | | | 1,486 | |  |
| Long-term debt | | | **57,042** | |  |  | | | 61,890 | |  |
| **Total liabilities** | | | **161,112** | |  |  | | | 170,211 | |  |
| 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 | | | **8,796** | |  |  | | | 7,787 | |  |
| Treasury stock, at cost - 424,789,354 and 429,941,021 shares | | | **(52,030)** | |  |  | | | (52,641) | |  |
| Retained earnings | | | **38,551** | |  |  | | | 38,610 | |  |
| Accumulated other comprehensive loss | | | **(14,818)** | |  |  | | | (17,133) | |  |
| **Total shareholders’ deficit** | | | **(14,440)** | |  |  | | | (18,316) | |  |
| Noncontrolling interests | | | **174** | |  |  | | | 241 | |  |
| **Total equity** | | | **(14,266)** | |  |  | | | (18,075) | |  |
| **Total liabilities and equity** | | | **$146,846** | |  |  | | | $152,136 | |  |

See Notes to the Condensed Consolidated Financial Statements.

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**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |
| **Cash flows – operating activities:** | | |  | | |  | | |  | | |
| Net loss | | | **($126)** | |  |  | | | ($3,502) | |  |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |  | | |  | | |  | | |
| Non-cash items – | | |  | | |  | | |  | | |
| Share-based plans expense | | | **677** | |  |  | | | 165 | |  |
| Treasury shares issued for 401(k) contribution | | | **951** | |  |  | | |  | | |
| Depreciation and amortization | | | **1,610** | |  |  | | | 1,668 | |  |
| Investment/asset impairment charges, net | | | **72** | |  |  | | | 317 | |  |
| Customer financing valuation adjustments | | | **(3)** | |  |  | | | 12 | |  |
|  | | |  | | |  | | |  | | |
| Gain on dispositions, net | | | **(283)** | |  |  | | | (200) | |  |
| Other charges and credits, net | | | **(82)** | |  |  | | | 912 | |  |
|  | | |  | | |  | | |  | | |
| Changes in assets and liabilities – | | |  | | |  | | |  | | |
| Accounts receivable | | | **(280)** | |  |  | | | 125 | |  |
| Unbilled receivables | | | **(2,010)** | |  |  | | | 56 | |  |
| Advances and progress billings | | | **781** | |  |  | | | 428 | |  |
| Inventories | | | **508** | |  |  | | | (9,653) | |  |
| Other current assets | | | **279** | |  |  | | | 319 | |  |
| Accounts payable | | | **(3,565)** | |  |  | | | (3,303) | |  |
| Accrued liabilities | | | **(3,168)** | |  |  | | | 967 | |  |
| Income taxes receivable, payable and deferred | | | **1,011** | |  |  | | | (2,404) | |  |
| Other long-term liabilities | | | **(168)** | |  |  | | | (149) | |  |
| Pension and other postretirement plans | | | **(731)** | |  |  | | | (556) | |  |
| Customer financing, net | | | **170** | |  |  | | | 108 | |  |
| Other | | | **225** | |  |  | | | 289 | |  |
| **Net cash used by operating activities** | | | **(4,132)** | |  |  | | | (14,401) | |  |
| **Cash flows – investing activities:** | | |  | | |  | | |  | | |
| Property, plant and equipment additions | | | **(758)** | |  |  | | | (1,038) | |  |
| Property, plant and equipment reductions | | | **385** | |  |  | | | 275 | |  |
| Acquisitions, net of cash acquired | | | **(6)** | |  |  | | |  | | |
| Contributions to investments | | | **(27,902)** | |  |  | | | (25,846) | |  |
| Proceeds from investments | | | **35,664** | |  |  | | | 9,772 | |  |
|  | | |  | | |  | | |  | | |
| Other | | | **6** | |  |  | | | 14 | |  |
| **Net cash provided/(used) by investing activities** | | | **7,389** | |  |  | | | (16,823) | |  |
| **Cash flows – financing activities:** | | |  | | |  | | |  | | |
| New borrowings | | | **9,822** | |  |  | | | 42,362 | |  |
| Debt repayments | | | **(11,049)** | |  |  | | | (8,792) | |  |
|  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |
| Stock options exercised | | | **36** | |  |  | | | 31 | |  |
|  | | |  | | |  | | |  | | |
| Employee taxes on certain share-based payment arrangements | | | **(47)** | |  |  | | | (169) | |  |
|  | | |  | | |  | | |  | | |
| Dividends paid | | |  | | |  | | | (1,158) | |  |
|  | | |  | | |  | | |  | | |
| **Net cash (used)/provided by financing activities** | | | **(1,238)** | |  |  | | | 32,274 | |  |
| Effect of exchange rate changes on cash and cash equivalents, including restricted | | | **(34)** | |  |  | | | 26 | |  |
| **Net increase in cash & cash equivalents, including restricted** | | | **1,985** | |  |  | | | 1,076 | |  |
| Cash & cash equivalents, including restricted, at beginning of year | | | **7,835** | |  |  | | | 9,571 | |  |
| **Cash & cash equivalents, including restricted, at end of period** | | | **9,820** | |  |  | | | 10,647 | |  |
| Less restricted cash & cash equivalents, included in Investments | | | **56** | |  |  | | | 83 | |  |
| **Cash and cash equivalents at end of period** | | | **$9,764** | |  |  | | | $10,564 | |  |

See Notes to the Condensed Consolidated Financial Statements.

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**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Equity**

**For the nine months ended September 30, 2021 and 2020**

(Unaudited)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | Boeing shareholders | | | | | | | | | | | | | | |  | | |  | | |
| *(Dollars in millions)* | | | Common Stock | | | Additional Paid-In Capital | | | Treasury Stock | | | Retained Earnings | | | Accumulated Other Comprehensive Loss | | | Non- controlling Interests | | | Total | | |
| Balance at January 1, 2020 | | | $5,061 | |  | $6,745 | |  | ($54,914) | |  | $50,482 | |  | ($16,153) | |  | $317 | |  | ($8,462) | |  |
| Net loss | | |  | | |  | | |  | | | (3,453) | |  |  | | | (49) | |  | (3,502) | |  |
| Other comprehensive income, net of tax of ($118) | | |  | | |  | | |  | | |  | | | 374 | |  |  | | | 374 | |  |
| Share-based compensation | | |  | | | 165 | |  |  | | |  | | |  | | |  | | | 165 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Treasury shares issued for stock options exercised, net | | |  | | | (22) | |  | 53 | |  |  | | |  | | |  | | | 31 | |  |
| Treasury shares issued for other share-based plans, net | | |  | | | (201) | |  | 42 | |  |  | | |  | | |  | | | (159) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance at September 30, 2020 | | | $5,061 | |  | $6,687 | |  | ($54,819) | |  | $47,029 | |  | ($15,779) | |  | $268 | |  | ($11,553) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2021** | | | **$5,061** | |  | **$7,787** | |  | **($52,641)** | |  | **$38,610** | |  | **($17,133)** | |  | **$241** | |  | **($18,075)** | |  |
| **Net loss** | | |  | | |  | | |  | | | **(59)** | |  |  | | | **(67)** | |  | **(126)** | |  |
| **Other comprehensive income, net of tax of ($298)** | | |  | | |  | | |  | | |  | | | **2,315** | |  |  | | | **2,315** | |  |
| **Share-based compensation** | | |  | | | **677** | |  |  | | |  | | |  | | |  | | | **677** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Treasury shares issued for stock options exercised, net** | | |  | | | **(24)** | |  | **60** | |  |  | | |  | | |  | | | **36** | |  |
| **Treasury shares issued for other share-based plans, net** | | |  | | | **(85)** | |  | **41** | |  |  | | |  | | |  | | | **(44)** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Treasury shares issued for 401(k) contribution** | | |  | | | **441** | |  | **510** | |  |  | | |  | | |  | | | **951** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at September 30, 2021** | | | **$5,061** | |  | **$8,796** | |  | **($52,030)** | |  | **$38,551** | |  | **($14,818)** | |  | **$174** | |  | **($14,266)** | |  |

See Notes to the Condensed Consolidated Financial Statements.

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**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Equity**

**For the three months ended September 30, 2021 and 2020**

(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, 2020 | | | $5,061 | |  | $6,648 | |  | ($54,829) | |  | $47,478 | |  | ($16,025) | |  | $285 | |  | ($11,382) | |  |
| Net loss | | |  | | |  | | |  | | | (449) | |  |  | | | (17) | |  | (466) | |  |
| Other comprehensive income, net of tax of ($79) | | |  | | |  | | |  | | |  | | | 246 | |  |  | | | 246 | |  |
| Share-based compensation | | |  | | | 50 | |  |  | | |  | | |  | | |  | | | 50 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Treasury shares issued for stock options exercised, net | | |  | | | (2) | |  | 6 | |  |  | | |  | | |  | | | 4 | |  |
| Treasury shares issued for other share-based plans, net | | |  | | | (9) | |  | 4 | |  |  | | |  | | |  | | | (5) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance at September 30, 2020 | | | $5,061 | |  | $6,687 | |  | ($54,819) | |  | $47,029 | |  | ($15,779) | |  | $268 | |  | ($11,553) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at July 1, 2021** | | | **$5,061** | |  | **$8,481** | |  | **($52,223)** | |  | **$38,660** | |  | **($16,661)** | |  | **$197** | |  | **($16,485)** | |  |
| **Net loss** | | |  | | |  | | |  | | | **(109)** | |  |  | | | **(23)** | |  | **(132)** | |  |
| **Other comprehensive income, net of tax of ($167)** | | |  | | |  | | |  | | |  | | | **1,843** | |  |  | | | **1,843** | |  |
| **Share-based compensation** | | |  | | | **184** | |  |  | | |  | | |  | | |  | | | **184** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Treasury shares issued for stock options exercised, net** | | |  | | | **(5)** | |  | **12** | |  |  | | |  | | |  | | | **7** | |  |
| **Treasury shares issued for other share-based plans, net** | | |  | | | **(9)** | |  | **3** | |  |  | | |  | | |  | | | **(6)** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Treasury shares issued for 401(k) contribution** | | |  | | | **145** | |  | **178** | |  |  | | |  | | |  | | | **323** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at September 30, 2021** | | | **$5,061** | |  | **$8,796** | |  | **($52,030)** | |  | **$38,551** | |  | **($14,818)** | |  | **$174** | |  | **($14,266)** | |  |

See Notes to the Condensed Consolidated Financial Statements.

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**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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Commercial Airplanes | | | **$14,743** | |  |  | | | $11,434 | |  |  | | | **$4,459** | |  |  | | | $3,596 | |  |
| Defense, Space & Security | | | **20,678** | |  |  | | | 19,478 | |  |  | | | **6,617** | |  |  | | | 6,848 | |  |
| Global Services | | | **12,037** | |  |  | | | 11,810 | |  |  | | | **4,221** | |  |  | | | 3,694 | |  |
| Boeing Capital | | | **209** | |  |  | | | 205 | |  |  | | | **71** | |  |  | | | 71 | |  |
| Unallocated items, eliminations and other | | | **(174)** | |  |  | | | (73) | |  |  | | | **(90)** | |  |  | | | (70) | |  |
| **Total revenues** | | | **$47,493** | |  |  | | | $42,854 | |  |  | | | **$15,278** | |  |  | | | $14,139 | |  |
| Earnings/(loss) from operations: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Commercial Airplanes | | | **($2,021)** | |  |  | | | ($6,199) | |  |  | | | **($693)** | |  |  | | | ($1,369) | |  |
| Defense, Space & Security | | | **1,799** | |  |  | | | 1,037 | |  |  | | | **436** | |  |  | | | 628 | |  |
| Global Services | | | **1,616** | |  |  | | | 307 | |  |  | | | **644** | |  |  | | | 271 | |  |
| Boeing Capital | | | **99** | |  |  | | | 47 | |  |  | | | **42** | |  |  | | | 30 | |  |
| **Segment operating earnings/(loss)** | | | **1,493** | |  |  | | | (4,808) | |  |  | | | **429** | |  |  | | | (440) | |  |
| Unallocated items, eliminations and other | | | **(1,032)** | |  |  | | | (965) | |  |  | | | **(370)** | |  |  | | | (314) | |  |
| FAS/CAS service cost adjustment | | | **808** | |  |  | | | 1,055 | |  |  | | | **270** | |  |  | | | 353 | |  |
| **Earnings/(loss) from operations** | | | **1,269** | |  |  | | | (4,718) | |  |  | | | **329** | |  |  | | | (401) | |  |
| Other income, net | | | **419** | |  |  | | | 325 | |  |  | | | **30** | |  |  | | | 119 | |  |
| Interest and debt expense | | | **(2,021)** | |  |  | | | (1,458) | |  |  | | | **(669)** | |  |  | | | (643) | |  |
| **Loss before income taxes** | | | **(333)** | |  |  | | | (5,851) | |  |  | | | **(310)** | |  |  | | | (925) | |  |
| Income tax benefit | | | **207** | |  |  | | | 2,349 | |  |  | | | **178** | |  |  | | | 459 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Net loss** | | | **(126)** | |  |  | | | (3,502) | |  |  | | | **(132)** | |  |  | | | (466) | |  |
| Less: Net loss attributable to noncontrolling interest | | | **(67)** | |  |  | | | (49) | |  |  | | | **(23)** | |  |  | | | (17) | |  |
| **Net loss attributable to Boeing Shareholders** | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |

This information is an integral part of the Notes to the Condensed Consolidated Financial Statements. See Note 18 for further segment results.

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**The Boeing Company and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements**

(Dollars in millions, except otherwise stated)

(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, 2021 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 2020 Annual Report on Form 10-K.

**Liquidity Matters**

The global outbreak of COVID-19, 787 production issues and associated rework and residual impacts from the grounding of the 737 MAX airplane in 2019 are having a significant adverse impact on our business and are expected to continue to negatively impact revenue, earnings, and operating cash flow in future quarters. The COVID-19 pandemic has caused an unprecedented shock to demand for air travel, creating a tremendous challenge for our customers, our business, and the entire aerospace manufacturing and services sector. We continue to expect commercial air travel to return to 2019 levels in 2023 to 2024. We expect it will take a few years beyond that for the industry to return to long-term trend growth. There is significant uncertainty with respect to when commercial air traffic levels will recover, and whether and at what point capacity will return to and/or exceed pre-COVID-19 levels.

During the first nine months of 2021, net cash used by operating activities was $4.1 billion. Our operating cash flows continue to be impacted by lower commercial airplane deliveries and increases in commercial airplane inventory. We expect negative operating cash flows until commercial deliveries ramp up. In the first quarter of 2021, we issued $9.8 billion of fixed rate senior notes that mature between 2023 and 2026. We used the net proceeds of these note issuances to repay $9.8 billion outstanding under our two-year delayed draw term loan credit agreement. In the third quarter of 2021, we repaid $1.2 billion of term notes. As a result, our cash and short-term investment balance was $20.0 billion at September 30, 2021, down from $25.6 billion at December 31, 2020, while our debt balance was $62.4 billion at September 30, 2021, down from $63.6 billion at December 31, 2020. Short-term debt and the current portion of long-term debt increased to $5.4 billion at September 30, 2021, up from $1.7 billion at December 31, 2020. The current portion of long term debt includes term notes of $0.3 billion maturing in the fourth quarter of 2021, $0.9 billion maturing in 2022, and the remaining delayed draw term loan. While our two-year delayed draw term loan matures in February 2022, we are planning to repay the remaining $4.0 billion in the fourth quarter of 2021. Our short-term and long-term credit ratings remained unchanged during the third quarter of 2021.

In the first quarter of 2021, we entered into a $5.3 billion two-year revolving credit agreement, which we have not drawn upon. As of September 30, 2021, our unused borrowing capacity on revolving credit agreements is $14.8 billion, up from $9.5 billion at December 31, 2020. $3.1 billion of the $14.8 billion is a 364-day revolving credit facility, which was set to expire in October 2021. In October 2021, we renewed the 364-day facility for $3.1 billion, which now expires in October 2022. This 364-day facility has a one-year term out option that allows us to extend the maturity of any borrowings one additional year. We anticipate that these credit lines will remain undrawn and primarily serve as back-up liquidity to support our general corporate borrowing needs. See Note 11.

At September 30, 2021, trade payables included $2.8 billion payable to suppliers who have elected to participate in supply chain financing programs. While access to supply chain financing was reduced in 2020 due to our credit ratings and debt levels, we do not believe that these or future changes in the availability of supply chain financing will have a significant impact on our liquidity.

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In addition to our debt issuances, we have taken a number of actions to improve liquidity. During 2020, our Board of Directors terminated its prior authorization to repurchase shares of the Company’s outstanding common stock and suspended the declaration and/or payment of dividends until further notice. We have also reduced production rates in our commercial business to reflect the impact of COVID-19 on the industry. We are executing on our plans to reduce our workforce through a combination of voluntary and involuntary layoffs and natural turnover. We have recorded severance costs for approximately 19,000 employees. In the fourth quarter of 2020, we began using our common stock in lieu of cash to fund Company contributions to our 401(k) plans. In December 2020, in lieu of merit pay increases, we awarded most of our employees a one-time stock grant that will vest in three years. We have reduced discretionary spending, including reducing or deferring research and development and capital expenditures. We expect these actions will further enable the Company to conserve cash.

We are also working with our customers and supply chain to accelerate receipts and conserve cash. For example, the United States Department of Defense (U.S. DoD) has taken steps to work with its industry partners to increase liquidity in the form of increased progress payment rates and reductions in withholds among other initiatives. We also deferred certain tax payments in 2020 pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act also included a five-year net operating loss carryback provision which enabled us to benefit from certain 2020 losses and resulted in tax refunds of $1.3 billion in the third quarter of 2021.

In July 2020, we announced our business transformation efforts to assess our business across five key pillars: infrastructure, overhead and organization, portfolio and investments, supply chain health, and operational excellence. Within the infrastructure pillar we are assessing our overall facility requirements in light of reduced demand in our commercial businesses and remote and virtual work opportunities for large numbers of our workforce. We also anticipate a reduction in office space needs compared to our pre-COVID capacity. However, as we consolidate our footprint, terminate leases, and dispose of properties, we may incur near term adverse impacts to earnings. The overhead and organization pillar is focused on our cost structure and how we are organized so we can right size our workforce and simplify and reduce management layers and bureaucracy. The portfolio and investments pillar includes aligning our portfolio and investments to focus on our core business and the changes in market conditions. The supply chain pillar is focused on supply chain health and stability, reducing indirect procurement spend and streamlining our transportation, logistics, and warehousing approach. The operational excellence pillar is focused on improving performance, enhancing quality, and reducing rework. These activities are not intended to constrain our capacity, but rather to enable the Company to emerge stronger and be more resilient when the market recovers.

Based on our current best estimates of market demand, planned production rates, timing of cash receipts and expenditures, our ability to successfully implement further actions to improve liquidity, as well as our ability to access additional liquidity, if needed, we believe it is probable that we will be able to fund our operations for the foreseeable future.

**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. We believe that the accounting estimates and assumptions included in these financial statements are appropriate and reflect increased uncertainties surrounding the severity and duration of the impacts of the COVID-19 pandemic, however actual results could differ from those estimates.

**Long-term Contracts**

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.

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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 periods' 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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Increase/(decrease) to Revenue | | | **$167** | |  |  | | | ($265) | |  |  | | | **($63)** | |  |  | | | $25 | |  |
| Decrease to Earnings/(loss) from operations | | | **($84)** | |  |  | | | ($787) | |  |  | | | **($142)** | |  |  | | | ($38) | |  |
| Decrease to Diluted EPS | | | **($0.05)** | |  |  | | | ($0.83) | |  |  | | | **($0.10)** | |  |  | | | ($0.03) | |  |

**Note 2 – Earnings Per Share**

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

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

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

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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Net loss attributable to Boeing Shareholders | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |
| Less: earnings available to participating securities | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Net loss available to common shareholders | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |
| Basic | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic weighted average shares outstanding | | | **587.3** | |  |  | | | 566.3 | |  |  | | | **589.0** | |  |  | | | 566.6 | |  |
| Less: participating securities | | | **0.4** | |  |  | | | 0.5 | |  |  | | | **0.4** | |  |  | | | 0.5 | |  |
| Basic weighted average common shares outstanding | | | **586.9** | |  |  | | | 565.8 | |  |  | | | **588.6** | |  |  | | | 566.1 | |  |
| Diluted | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic weighted average shares outstanding | | | **587.3** | |  |  | | | 566.3 | |  |  | | | **589.0** | |  |  | | | 566.6 | |  |
| Dilutive potential common shares(1) | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Diluted weighted average shares outstanding | | | **587.3** | |  |  | | | 566.3 | |  |  | | | **589.0** | |  |  | | | 566.6 | |  |
| Less: participating securities | | | **0.4** | |  |  | | | 0.5 | |  |  | | | **0.4** | |  |  | | | 0.5 | |  |
| Diluted weighted average common shares outstanding | | | **586.9** | |  |  | | | 565.8 | |  |  | | | **588.6** | |  |  | | | 566.1 | |  |
| Net loss per share: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic | | | **($0.10)** | |  |  | | | ($6.10) | |  |  | | | **($0.19)** | |  |  | | | ($0.79) | |  |
| Diluted | | | **(0.10)** | |  |  | | | (6.10) | |  |  | | | **(0.19)** | |  |  | | | (0.79) | |  |

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

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As a result of incurring a net loss for the nine and three months ended September 30, 2021 and 2020, potential common shares of 2.3 million, 2.7 million, 1.6 million and 1.3 million, respectively, were excluded from diluted loss per share because the effect would have been antidilutive. In addition, 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 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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Performance awards | | | **2.8** | |  |  | | | 6.1 | |  |  | | | **3.0** | |  |  | | | 6.0 | |  |
| Performance-based restricted stock units | | | **0.8** | |  |  | | | 1.4 | |  |  | | | **0.8** | |  |  | | | 1.3 | |  |
| Restricted stock units | | | **0.5** | |  |  | | |  | | |  | | |  | | |  | | |  | | |
| Stock options | | | **0.3** | |  |  | | |  | | |  | | | **0.3** | |  |  | | |  | | |

**Note 3 – Income Taxes**

Our income tax expense or benefit for interim periods has been historically determined using an estimate of our annual effective tax rate, adjusted for discrete items. In the third quarter of 2021, we determined that we could not make a reliable estimate of the annual effective tax rate primarily due to nearly break-even pre-tax earnings. For example during the first quarter of 2021, the Company reported pre-tax losses of $572, second quarter pre-tax earnings of $549 and third quarter pre-tax losses of $310 while year-to-date pre-tax losses total $333. As a result, the effective tax rate for the nine months ended September 30, 2021 was calculated based on 2021 year-to-date results. We recorded a tax benefit of $207 for the nine months ended September 30, 2021 primarily reflecting 2021 net operating losses including Research and Development tax credits that are expected to be realized.

As of September 30, 2021 and December 31, 2020, the Company had recorded valuation allowances of $2,810 and $3,094 primarily for certain federal deferred tax assets, state net operating loss carryforwards, and state tax credits. $301 of the reduction in the valuation allowance was recorded to Other comprehensive income, primarily due to the remeasurement of certain pension assets and liabilities during the third quarter of 2021 that resulted in an actuarial gain. To measure the valuation allowance, the Company estimated in what year each of its deferred tax assets and liabilities would reverse using systematic and logical methods to estimate the reversal patterns. Based on these methods, deferred tax liabilities were assumed to reverse and generate taxable income over the next 5 to 10 years while deferred tax assets related to pension and other postretirement benefit obligations were assumed to reverse and generate tax deductions over the next 15 to 20 years. The valuation allowance primarily resulted from not having sufficient income from deferred tax liability reversals in the appropriate future periods to support the realization of certain deferred tax assets.

As of September 30, 2021, based on the estimated reversal patterns of the Company’s deferred tax assets and liabilities, it is more likely than not that the Company will realize the federal deferred tax assets generated in 2021 as there is sufficient projected income from reversals of deferred tax liabilities in the next five years.

Federal income tax audits have been settled for all years prior to 2018. The Internal Revenue Service (IRS) began the 2018-2019 federal tax audit in the first quarter of 2021. We are also subject to examination in major state and international jurisdictions for the 2007-2019 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

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**Note 4 – Allowances for Losses on Financial Assets**

The changes in allowances for expected credit losses for the nine months ended September 30, 2021 and 2020 consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | Accounts receivable, net | | | Unbilled receivables, net | | | Other current assets, net | | | Customer financing, net | | | Other assets, net | | | Total | | |
| Balance at January 1, 2020 | | | ($138) | |  | ($81) | |  | ($38) | |  | ($5) | |  | ($75) | |  | ($337) | |  |
| Changes in estimates | | | (296) | |  | (46) | |  | (20) | |  | (12) | |  | (3) | |  | (377) | |  |
| Write-offs | | | 3 | |  |  | | |  | | |  | | |  | | | 3 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance at September 30, 2020 | | | ($431) | |  | ($127) | |  | ($58) | |  | ($17) | |  | ($78) | |  | ($711) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2021** | | | **($444)** | |  | **($129)** | |  | **($72)** | |  | **($17)** | |  | **($140)** | |  | **($802)** | |  |
| **Changes in estimates** | | | **15** | |  | **3** | |  | **(3)** | |  | **3** | |  | **(45)** | |  | **(27)** | |  |
| **Write-offs** | | | **21** | |  |  | | | **1** | |  |  | | | **13** | |  | **35** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Recoveries** | | | **1** | |  |  | | |  | | |  | | |  | | | **1** | |  |
| **Balance at September 30, 2021** | | | **($407)** | |  | **($126)** | |  | **($74)** | |  | **($14)** | |  | **($172)** | |  | **($793)** | |  |

**Note 5 – Inventories**

Inventories consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Long-term contracts in progress | | | **$578** | |  |  | | | $823 | |  |
| Commercial aircraft programs | | | **71,092** | |  |  | | | 70,153 | |  |
| Commercial spare parts, used aircraft, general stock materials and other | | | **10,227** | |  |  | | | 10,739 | |  |
| Total | | | **$81,897** | |  |  | | | $81,715 | |  |

Commercial spare parts, used aircraft, general stock materials and other includes capitalized precontract costs of $646 at September 30, 2021 and $733 at December 31, 2020 primarily related to KC-46A Tanker and Commercial Crew. See Note 9.

**Commercial Aircraft Programs**

The increase in commercial aircraft programs inventory during 2021 reflects a continued buildup of 787 aircraft, as well as growth in 777X inventory. These increases were partially offset by a decrease in 737 MAX inventory reflecting the resumption of deliveries. Commercial aircraft programs inventory includes approximately 370 737 MAX aircraft and 105 787 aircraft at September 30, 2021 as compared with 425 737 MAX aircraft and 80 787 aircraft at December 31, 2020.

A number of customers have requested to defer deliveries or to cancel orders. We are currently remarketing certain aircraft and may have to remarket additional aircraft in future periods. If we are unable to successfully remarket the aircraft, determine further production rate reductions are necessary, and/or contract the program accounting quantities, future earnings may be reduced and/or additional reach-forward losses may have to be recorded.

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At September 30, 2021 and December 31, 2020, commercial aircraft programs inventory included the following amounts related to the 737 program: deferred production costs of $1,676 and $2,159 and unamortized tooling and other non-recurring costs of $619 and $480. At September 30, 2021, $2,276 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 $19 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At September 30, 2021 and December 31, 2020, commercial aircraft programs inventory included the following amounts related to the 777X program: unamortized tooling and other non-recurring costs of $3,444 and $3,295. During the fourth quarter of 2020, we determined that estimated costs to complete the 777X program plus costs already included in 777X inventory exceed estimated revenues from the program. The resulting reach-forward loss of $6,493 was recorded as a reduction to deferred production costs. As a result, 777X deferred production costs were immaterial at September 30, 2021 and December 31, 2020. The level of profitability on the 777X program will be subject to a number of factors. These factors include continued market uncertainty, the impacts of COVID-19 on our production system as well as impacts on our supply chain and customers, further production rate adjustments for the 777X or other commercial aircraft programs, contraction of the accounting quantity and potential risks associated with the testing program and the timing of aircraft certification. One or more of these factors could result in additional reach-forward losses on the 777X program in future periods.

At September 30, 2021 and December 31, 2020, commercial aircraft programs inventory included the following amounts related to the 787 program: deferred production costs of $15,153 and $14,976, $1,808 and $1,865 of supplier advances, and $1,814 and $1,863 of unamortized tooling and other non-recurring costs. At September 30, 2021, $11,643 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 $5,324 is expected to be recovered from units included in the program accounting quantity that represent expected future orders. The 787 program produced at abnormally low production rates during the third quarter of 2021 as we prioritized production resources on inspections and rework. As a result, we expect to incur approximately $1 billion of abnormal production costs on a cumulative basis, which are being expensed as incurred. Abnormal 787 production costs are associated with abnormally low production rates, as well as costs to complete inspections and rework. In the third quarter of 2021, we recorded period expense of $183. We expect to record approximately $800 in future quarters while production rates remain low and inspections and rework continues. In the event we are unable to increase production, complete inspections and rework and/or resume deliveries consistent with our assumptions, our estimate of future abnormal costs could be increased.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $3,238 and $2,992 at September 30, 2021 and December 31, 2020.

**Note 6 – Contracts with Customers**

Unbilled receivables increased from $7,995 at December 31, 2020 to $10,009 at September 30, 2021, primarily driven by revenue recognized at Defense, Space & Security (BDS) and Global Services (BGS) in excess of billings.

Advances and progress billings increased from $50,488 at December 31, 2020 to $51,269 at September 30, 2021, primarily driven by advances on orders received at Commercial Airplanes (BCA), BDS, and BGS, partially offset by revenue recognized and the return of customer advances at BCA.

Revenues recognized during the nine months ended September 30, 2021 and 2020 from amounts recorded as Advances and progress billings at the beginning of each year were $10,131 and $6,752. Revenues recognized during the three months ended September 30, 2021 and 2020 from amounts recorded as Advances and progress billings at the beginning of each year were $2,816 and $1,497.

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**Note 7 – Customer Financing**

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Financing receivables: | | |  | | |  | | |  | | |
| Investment in sales-type/finance leases | | | **$966** | |  |  | | | $919 | |  |
| Notes | | | **414** | |  |  | | | 420 | |  |
| Total financing receivables | | | **1,380** | |  |  | | | 1,339 | |  |
| Operating lease equipment, at cost, less accumulated depreciation of $84 and $209 | | | **505** | |  |  | | | 715 | |  |
|  | | |  | | |  | | |  | | |
| Gross customer financing | | | **1,885** | |  |  | | | 2,054 | |  |
| Less allowance for losses on receivables | | | **(14)** | |  |  | | | (17) | |  |
| Total | | | **$1,871** | |  |  | | | $2,037 | |  |

We acquire aircraft to be leased to customers through trades, lease returns, purchases in the secondary market, and new aircraft transferred from our BCA 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, 2021 and December 31, 2020, we individually evaluated for impairment customer financing receivables of $378 and $391, of which $378 and $380 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.

We determine a receivable is past due when cash has not been received upon the due date specified in the contract. There were no past due customer financing receivables as of September 30, 2021 and September 30, 2020.

We evaluate the collectability of customer financing receivables at commencement and on a recurring basis. If a customer financing receivable is deemed uncollectible, the customer is categorized as non-accrual status. When a customer is in non-accrual status at commencement, revenue is deferred until substantially all cash has been received or the customer is removed from non-accrual status. If a customer status changes to non-accrual after commencement and sufficient collateral is available, we recognize contractual interest income as payments are received to the extent payments exceed past due principal payments. If there is not sufficient collateral, then revenue is not recognized until payments exceed the principal balance. Receivables in non-accrual status as of September 30, 2021 and December 31, 2020 were $378 and $380. Interest income received was $14 and $3 for the nine and three months ended September 30, 2021 and $26 and $5 for the nine and three months ended September 30, 2020.

The adequacy of the allowance for losses is assessed quarterly. The four primary factors influencing the level of our allowance for losses on customer financing receivables are customer credit ratings, default rates, expected loss rate and collateral values, each of which may be adversely affected by impacts that COVID-19 has on our customers. 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.

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Our financing receivable balances at September 30, 2021 by internal credit rating category and year of origination consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Rating categories | | | **Current** | | | **2020** | | | **2019** | | | **2018** | | | **2017** | | | **Prior** | | | **Total** | | |
| BBB | | |  | | |  | | |  | | |  | | |  | | | **$147** | |  | **$147** | |  |
| BB | | | **$188** | |  | **$124** | |  | **$44** | |  | **$13** | |  |  | | | **130** | |  | **499** | |  |
| B | | | **78** | |  |  | | |  | | |  | | | **$50** | |  | **159** | |  | **287** | |  |
| CCC | | |  | | | **7** | |  | **28** | |  |  | | | **236** | |  | **176** | |  | **447** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Total carrying value of financing receivables | | | **$266** | |  | **$131** | |  | **$72** | |  | **$13** | |  | **$286** | |  | **$612** | |  | **$1,380** | |  |

At September 30, 2021, our allowance related to receivables with ratings of CCC, B, BB, and BBB. We applied default rates that averaged 24.1%, 5.9%, 2.7%, and 0.2%, 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. Certain collateral values are being adversely impacted by the changes in market conditions driven by the COVID-19 pandemic. 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 2021** | | |  | | | December 31 2020 | | |
| 717 Aircraft ($65 and $98 accounted for as operating leases) | | | **$604** | |  |  | | | $637 | |  |
| 747-8 Aircraft ($0 and $121 accounted for as operating leases) | | | **437** | |  |  | | | 480 | |  |
| 737 Aircraft ($166 and $214 accounted for as operating leases) | | | **185** | |  |  | | | 235 | |  |
| 777 Aircraft ($226 and $216 accounted for as operating leases) | | | **233** | |  |  | | | 225 | |  |
| MD-80 Aircraft (accounted for as sales-type finance leases) | | | **159** | |  |  | | | 167 | |  |
| 757 Aircraft ($0 and $4 accounted for as operating leases) | | | **130** | |  |  | | | 147 | |  |
| 747-400 Aircraft ($11 and $19 accounted for as operating leases) | | | **61** | |  |  | | | 71 | |  |
|  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |

Lease income recorded in Revenue on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2021 and 2020 included $38 and $44 from sales-type/finance leases, and $53 and $99 from operating leases, of which $6 and $6 related to variable operating lease payments. Lease income recorded in Revenue on the Condensed Consolidated Statements of Operations for the three months ended September 30, 2021 and 2020 included $13 and $15 from sales-type/finance leases, and $16 and $37 from operating leases, of which $1 and $2 related to variable operating lease payments.

Profit at the commencement of sales-type leases was recorded in revenue for the nine months ended September 30, 2021 and 2020 in the amount of $57 and $18. Profit at the commencement of sales-type leases was recorded in revenue for the three months ended September 30, 2021 and 2020 in the amount of $21 and $8.

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**Note 8 – Investments**

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Equity method investments (1) | | | **$928** | |  |  | | | $936 | |  |
| Time deposits | | | **9,685** | |  |  | | | 17,154 | |  |
| Available for sale debt instruments | | | **490** | |  |  | | | 596 | |  |
| Equity and other investments | | | **35** | |  |  | | | 85 | |  |
| Restricted cash & cash equivalents(2) | | | **56** | |  |  | | | 83 | |  |
| Total | | | **$11,194** | |  |  | | | $18,854 | |  |

(1)Dividends received were $52 and $9 for the nine and three months ended September 30, 2021 and $58 and $5 during the same periods in the prior year. During the third quarter of 2021, Boeing and AE Industrial Partners announced a strategic partnership to establish a dedicated aerospace venture fund. This transaction resulted in the deconsolidation of HorizonX and generated a gain of $117 which is included in Income from operating investments, net.

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

Allowance for losses on available for sale debt instruments are assessed quarterly. All instruments are considered investment grade and, as such, we have not recognized an allowance for credit losses as of September 30, 2021.

**Note 9 – Commitments and Contingencies**

**737 MAX Grounding and COVID-19 Impacts**

In 2019, following two fatal 737 MAX accidents, the Federal Aviation Administration (FAA) and non-U.S. civil aviation authorities issued orders suspending commercial operations of 737 MAX aircraft. Deliveries of the 737 MAX were suspended following these orders. Deliveries in the U.S. resumed in late 2020 following rescission by the FAA of its grounding order. In addition, several other non-U.S. civil aviation authorities, including the Brazilian National Civil Aviation Agency, Transport Canada, and the European Union Aviation Safety Agency (EASA) have subsequently approved return of operations, allowing us to resume deliveries in those jurisdictions. About 175 countries have approved the resumption of 737 MAX operations. The 737 MAX remains grounded in certain non-U.S. jurisdictions, including China. Flight tests were completed in China during the third quarter of 2021, and we are continuing to work towards approval by the end of 2021, with the resumption of deliveries to follow in the first quarter of 2022.

Multiple legal actions have been filed against us as a result of the accidents. In addition, we are fully cooperating with U.S. government investigations related to the accidents and the 737 MAX program, including an investigation by the Securities and Exchange Commission, the outcome of which may be material. Other than as described in Note 17 with respect to our entry during the first quarter into a Deferred Prosecution Agreement with the U.S. Department of Justice, we cannot reasonably estimate a range of loss, if any, not covered by available insurance that may result given the current status of the lawsuits, investigations and inquiries related to the 737 MAX.

In early April 2021, we notified the FAA that we recommended to operators that certain 737 MAX airplanes be temporarily removed from service to address issues that could affect the operation of the electrical power system. During the second quarter of 2021, we worked with the FAA to finalize the required actions to address the issues and resumed deliveries in May. We do not expect this matter to have a material financial impact on the 737 program.

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In the first nine months of 2021, we delivered 167 aircraft. We have approximately 370 airplanes in inventory as of September 30, 2021 and we anticipate delivering most of these aircraft by the end of 2023. A number of customers have requested to defer deliveries or to cancel orders for 737 MAX aircraft, and we are remarketing and/or delaying deliveries of certain aircraft included within inventory. In the event that we are unable to resume aircraft deliveries in certain non-U.S. jurisdictions consistent with our assumptions of regulatory approval timing, our expectation of delivery timing could be impacted.

We produced at abnormally low production rates in 2020 and expect to continue to do so through 2021. As a result, we expect to incur approximately $4.6 billion of abnormal production costs on a cumulative basis, which are being expensed as incurred, of which $2,567 was recorded during the year ended December 31, 2020 and $1,501 was recorded during the nine months ended September 30, 2021.

In addition to impacts related to the 737 MAX accidents and subsequent grounding, the 737 program continues to be significantly impacted by the COVID-19 pandemic and its effect on aircraft demand. These impacts have contributed to the lower production and delivery rate assumptions described above. We have gradually increased production rates in 2020 and 2021 and continue to expect to increase the production rate to 31 per month in early 2022, as well as implement further gradual production rate increases in subsequent periods based on market demand and supply chain capacity. The ongoing impacts of COVID-19 on market demand and timing of regulatory approvals in certain non-U.S. jurisdictions have also created significant uncertainty around the timing of deliveries of 737 MAX aircraft in inventory. We may need to recognize additional costs associated with remarketing and/or reconfiguring aircraft in inventory, which may reduce revenue and/or earnings in future periods.

We have also recorded additional expenses of $136 and $33 due to the 737 MAX grounding during the nine and three months ended September 30, 2021, and $239 and $118 during the nine and three months ended September 30, 2020. These expenses include costs related to storage, inventory impairment, pilot training, and software updates.

The following table summarizes changes in the 737 MAX customer concessions and other considerations liability during the nine months ended September 30, 2021 and 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **2021** | | |  | | | 2020 | | |  |
| Beginning balance – January 1 | | | **$5,537** | |  |  | | | $7,389 | |  |  |
|  | | |  | | |  | | |  | | |  |
| Reductions for payments made | | | **(2,040)** | |  |  | | | (1,695) | |  |  |
| Reductions for concessions and other in-kind considerations | | | **(53)** | |  |  | | | (83) | |  |  |
| Changes in estimates | | | **(1)** | |  |  | | | 370 | |  |  |
| Ending balance – September 30 | | | **$3,443** | |  |  | | | $5,981 | |  |  |

We are working with our customers to minimize the impact to their operations from grounded and undelivered aircraft. We continue to reassess the liability for estimated potential concessions and other considerations to customers on a quarterly basis. This reassessment includes updating estimates to reflect revisions to return to service, delivery and production rate assumptions driven by timing of regulatory approvals, as well as latest information based on engagements with 737 MAX customers. The liability represents our current best estimate of future concessions and other considerations to customers, and is necessarily based on a series of assumptions. It is subject to change in future quarters as negotiations with customers mature and timing and conditions of return to service are better understood. The liability balance of $3.4 billion at September 30, 2021 includes $1.3 billion expected to be liquidated by lower customer delivery payments, $1.0 billion expected to be paid in cash and $0.2 billion in other concessions. Of the cash payments to customers, we expect to pay $0.2 billion in 2021 and $0.7 billion in 2022. The type of consideration to be provided for the remaining $0.9 billion will depend on the outcomes of negotiations with customers.

The 737 MAX remains grounded in certain non-U.S. jurisdictions. The civil aviation authorities in those jurisdictions will determine the timing and conditions of return to service. Our assumptions reflect our current best estimate, but actual timing and conditions of return to service and resumption of deliveries could differ from this estimate, the effect of which could be material. We are unable at this time to

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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 in certain jurisdictions. For example, a significant portion of our 737 MAX inventory consists of aircraft scheduled to be delivered to customers based in China. If we are unable to resume deliveries to China consistent with our assumptions, or if further deterioration in trade relations between the U.S. and China results in unanticipated delivery delays, the continued absence in revenue, earnings, and cash flows associated with 737 MAX deliveries would materially and adversely impact our operating results. In addition, uncertainties related to the impacts of COVID-19 on our operations, supply chain and customers, future changes to the production rate, supply chain impacts, and/or the results of negotiations with particular customers, as well as any changes in our program estimates, could have a material adverse effect on our financial position, results of operations, and/or cash flows. In the event that future production rate increases occur at a slower rate or take longer than we are currently assuming, we expect that the growth in inventory and other cash flow impacts associated with production would decrease. However, while any prolonged production suspension or delays in planned production rate increases could mitigate the impact 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 and/or increase abnormal production costs in the future.

Commercial air traffic and capacity have fallen dramatically due to the COVID-19 pandemic. This trend has impacted passenger traffic most severely. While recovery is accelerating, we continue to expect that it will remain uneven as travel restrictions and varying regional travel protocols continue to impact air travel. While the pandemic caused a temporary shift in air cargo dynamics, we have seen air cargo traffic return to positive growth in 2021 on economic recovery and strengthening trade. These changes are causing, and are expected to continue to cause, negative impacts to our customers’ revenue, earnings, and cash flow, and in some cases may threaten the future viability of some of our customers, potentially causing defaults within our customer financing portfolio and/or requiring us to remarket aircraft that have already been produced and/or are currently in backlog. If 737 MAX aircraft remain grounded for an extended period of time in certain non-U.S. jurisdictions, we may experience additional reductions to backlog and/or significant order cancellations. Additionally, we may experience fewer new orders and increased cancellations across all of our commercial airplane programs as a result of the COVID-19 pandemic and associated impacts on demand. Our customers may also lack sufficient liquidity to purchase new aircraft due to impacts from the pandemic. We are also observing a significant increase in the number of requests for payment deferrals, contract modifications, lease restructurings and similar actions, and these trends may lead to additional earnings charges, impairments and other adverse financial impacts in our business over time. In addition, to the extent that customers have valid rights to cancel undelivered aircraft, we may be required to refund pre-delivery payments, putting additional constraints on our liquidity. There is risk that the industry implements longer-term strategies involving reduced capacity, shifting route patterns, and mitigation strategies related to impacts from COVID-19 and the risk of future public health crises. In addition, airlines may experience reduced demand due to reluctance by the flying public to travel.

We continue to expect commercial air travel to return to 2019 levels in 2023 to 2024. We expect it will take a few years beyond that for the industry to return to long-term trend growth. There is significant uncertainty with respect to when commercial air traffic levels will begin to recover, and whether and at what point capacity will return to and/or exceed pre-COVID-19 levels. The COVID-19 pandemic also has increased, and its aftermath is also expected to continue to increase, uncertainty with respect to global trade volumes, which could put significant negative pressure on cargo traffic. Any of these factors would have a significant impact on the demand for both single-aisle and wide-body commercial aircraft, as well as for the services we provide to commercial airlines. In addition, a lengthy period of reduced industry-wide demand for commercial aircraft would put additional pressure on our suppliers, resulting in increased procurement costs and/or additional supply chain disruption. To the extent that the COVID-19 pandemic or its aftermath further impacts demand for our products and services or impairs the viability of some of our customers and/or suppliers, our financial condition, results of operations, and cash flows could be adversely affected, and those impacts could be material.

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**Environmental**

The following table summarizes environmental remediation activity during the nine months ended September 30, 2021 and 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **2021** | | |  | | | 2020 | | |
| Beginning balance – January 1 | | | **$565** | |  |  | | | $570 | |  |
| Reductions for payments made | | | **(35)** | |  |  | | | (26) | |  |
| Changes in estimates | | | **99** | |  |  | | | 27 | |  |
| Ending balance – September 30 | | | **$629** | |  |  | | | $571 | |  |

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, 2021 and December 31, 2020, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $1,057 and $1,095.

**Product Warranties**

The following table summarizes product warranty activity recorded during the nine months ended September 30, 2021 and 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **2021** | | |  | | | 2020 | | |
| Beginning balance – January 1 | | | **$1,527** | |  |  | | | $1,267 | |  |
| Additions for current year deliveries | | | **71** | |  |  | | | 50 | |  |
| Reductions for payments made | | | **(182)** | |  |  | | | (202) | |  |
| Changes in estimates | | | **439** | |  |  | | | 444 | |  |
| Ending balance – September 30 | | | **$1,855** | |  |  | | | $1,559 | |  |

**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, 2021 have expiration dates from 2021 through 2028. At September 30, 2021 and December 31, 2020 total contractual trade-in commitments were $685 and $950. As of September 30, 2021 and December 31, 2020, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $269 and $599 and the fair value of the related trade-in aircraft was $269 and $580.

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**Financing Commitments**

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $13,311 and $11,512 as of September 30, 2021 and December 31, 2020. The estimated earliest potential funding dates for these commitments as of September 30, 2021 are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
|  | | | Total | | |
| October through December 2021 | | | $1,419 | |  |
| 2022 | | | 2,054 | |  |
| 2023 | | | 4,654 | |  |
| 2024 | | | 2,270 | |  |
| 2025 | | | 1,665 | |  |
| Thereafter | | | 1,249 | |  |
|  | | | $13,311 | |  |

As of September 30, 2021, $13,189 of these financing commitments relate 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 $256 to joint ventures over the next six years.

**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 $3,885 and $4,238 as of September 30, 2021 and December 31, 2020.

**United States Government Defense Environment Overview**

The Omnibus appropriations acts for fiscal year 2021 (FY21), enacted in December 2020, provided FY21 appropriations for government departments and agencies, including $704 billion for the U.S. DoD, $23 billion for the National Aeronautics and Space Administration (NASA) and $18 billion for the FAA. FY21 appropriations included funding for Boeing’s major programs, such as the F/A-18 Super Hornet, F-15EX, CH-47 Chinook, AH-64 Apache, V-22 Osprey, KC-46A Tanker, P-8 Poseidon and Space Launch System.

In May 2021, the U.S. government released the President’s budget request for fiscal year 2022 (FY22), which included $715 billion in funding for the U.S. DoD, $25 billion in funding for NASA and $19 billion for the FAA. While the President’s budget request for FY22 includes funding for a majority of Boeing’s programs, it did not include funding for F/A-18 Super Hornet, P-8 Poseidon and CH-47F Block II production aircraft. While there is some continued congressional support for F/A-18 and CH-47F Block II production aircraft for FY22, there is ongoing uncertainty with respect to these and other program-level appropriations for FY22 and future fiscal years. These programs also continue to pursue non-U.S. sales opportunities.

The Continuing Resolution (CR), enacted by U.S. Congress on September 30, 2021, continues federal funding at FY21 appropriated levels through December 3, 2021. Congress and the President must enact either full-year FY22 appropriations bills or an additional CR to fund government departments and agencies beyond December 3, 2021 or a government shutdown could result, which may impact the Company’s operations.

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Future budget cuts or investment priority changes, including changes associated with the authorizations and appropriations process, 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, KC-46A Tanker, MQ-25, T-7A Red Hawk, VC-25B, 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. Moreover, our fixed-price development programs remain subject to additional reach-forward losses if we experience further production, technical or quality issues, schedule delays, or increased costs.

**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 Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract and involves highly complex designs and systems integration. Since 2016, the USAF has authorized seven low rate initial production (LRIP) lots for a total of 94 aircraft. The EMD contract and authorized LRIP lots total approximately $19 billion as of September 30, 2021.

At September 30, 2021, we had approximately $252 of capitalized precontract costs and $305 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.

**Severance**

The following table summarizes changes in the severance liability during the nine months ended September 30, 2021 and 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **2021** | | |  | | | **2020** | | |  |
| Beginning balance – January 1 | | | **$283** | |  |  | | |  | | |  |
| Initial liability recorded in the second quarter of 2020 | | |  | | |  | | | $652 | |  |  |
| Reductions for payments made | | | **(84)** | |  |  | | | (395) | |  |  |
| Changes in estimates | | | **(179)** | |  |  | | | 328 | |  |  |
| Ending balance – September 30 | | | **$20** | |  |  | | | $585 | |  |  |

During 2020, the Company recorded severance costs for approximately 26,000 employees expected to leave the Company through a combination of voluntary and involuntary terminations. The severance packages are consistent with the Company’s ongoing compensation and benefits plans. During the first quarter of 2021, we reduced the estimated number of employees expected to leave the Company through voluntary and involuntary terminations to approximately 23,000. During the second quarter of 2021, we further reduced the estimated number of employees expected to leave the Company through voluntary and involuntary terminations to approximately 19,000. As of September 30, 2021, our severance liability primarily relates to remaining severance payments to terminated employees.

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**Note 10 – 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 2021** | | | December 31 2020 | | |  | | | **September 30 2021** | | | December 31 2020 | | |  | | | **September 30 2021** | | | December 31 2020 | | |
| Contingent repurchase commitments | | | **$548** | |  | $1,452 | |  |  | | | **$548** | |  | $1,452 | |  |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Credit guarantees | | | **90** | |  | 90 | |  |  | | | **28** | |  | 28 | |  |  | | | **$24** | |  | $24 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

**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.

**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 9.

**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. We record a liability for the fair value of guarantees and the expected contingent loss amount, which is reviewed quarterly. Current outstanding credit guarantees expire through 2036.

**Note 11 – Debt**

In the first quarter of 2021, we issued $9,825 of fixed rate senior notes consisting of $1,325 due February 4, 2023 that bear an annual interest rate of 1.167%, $3,000 due February 4, 2024 that bear an annual interest rate of 1.433%, and $5,500 due February 4, 2026 that bear an annual interest rate of 2.196%. 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 $9,780, after deducting underwriting discounts, commissions, and offering expenses. We used the net proceeds of these note issuances to repay $9,825 outstanding under our two-year delayed draw term loan credit agreement. While our two-year delayed draw term loan matures in February 2022, we are planning to repay the remaining $4,000 in the fourth quarter of 2021.

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In the first quarter of 2021, we entered into a $5,280 two-year revolving credit agreement. As of September 30, 2021, we had $14,753 currently available under credit line agreements, of which $3,073 expires in October 2021, $3,200 expires in October 2022, $5,280 expires in March 2023, and $3,200 expires in October 2024. In October 2021, we renewed the 364-day facility for $3,060, which now expires in October 2022. This 364-day facility has a one-year term out option that allows us to extend the maturity of any borrowings one additional year. We continue to be in full compliance with all covenants contained in our debt or credit facility agreements.

**Note 12 – 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 | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Service cost | | | **$2** | |  |  | | | $2 | |  |  | | |  | | |  | | | $1 | |  |
| Interest cost | | | **1,493** | |  |  | | | 1,841 | |  |  | | | **$498** | |  |  | | | 613 | |  |
| Expected return on plan assets | | | **(2,894)** | |  |  | | | (2,816) | |  |  | | | **(963)** | |  |  | | | (938) | |  |
| Amortization of prior service credits | | | **(60)** | |  |  | | | (60) | |  |  | | | **(20)** | |  |  | | | (20) | |  |
| Recognized net actuarial loss | | | **924** | |  |  | | | 774 | |  |  | | | **304** | |  |  | | | 258 | |  |
| Settlement charge | | | **156** | |  |  | | | 6 | |  |  | | | **152** | |  |  | | | 3 | |  |
| Net periodic benefit income | | | **($379)** | |  |  | | | ($253) | |  |  | | | **($29)** | |  |  | | | ($83) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Net periodic benefit cost included in Earnings/(loss) from operations | | | **$2** | |  |  | | | $2 | |  |  | | |  | | |  | | | $1 | |  |
| Net periodic benefit income included in Other income, net | | | **(381)** | |  |  | | | (255) | |  |  | | | **($29)** | |  |  | | | (84) | |  |
| Net periodic benefit income included in Loss before income taxes | | | **($379)** | |  |  | | | ($253) | |  |  | | | **($29)** | |  |  | | | ($83) | |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
| Other Postretirement Plans | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Service cost | | | **$66** | |  |  | | | $65 | |  |  | | | **$22** | |  |  | | | $22 | |  |
| Interest cost | | | **68** | |  |  | | | 107 | |  |  | | | **23** | |  |  | | | 35 | |  |
| Expected return on plan assets | | | **(6)** | |  |  | | | (6) | |  |  | | | **(3)** | |  |  | | | (1) | |  |
| Amortization of prior service credits | | | **(26)** | |  |  | | | (29) | |  |  | | | **(9)** | |  |  | | | (12) | |  |
| Recognized net actuarial gain | | | **(52)** | |  |  | | | (33) | |  |  | | | **(17)** | |  |  | | | (10) | |  |
| Settlement charge | | |  | | |  | | | (2) | |  |  | | |  | | |  | | | (2) | |  |
| Net periodic benefit cost | | | **$50** | |  |  | | | $102 | |  |  | | | **$16** | |  |  | | | $32 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Net periodic benefit cost included in Earnings/(loss) from operations | | | **$66** | |  |  | | | $67 | |  |  | | | **$22** | |  |  | | | $23 | |  |
| Net periodic benefit (income)/cost included in Other income, net | | | **(16)** | |  |  | | | 37 | |  |  | | | **(6)** | |  |  | | | 10 | |  |
| Net periodic benefit cost included in Loss before income taxes | | | **$50** | |  |  | | | $104 | |  |  | | | **$16** | |  |  | | | $33 | |  |

In the third quarter of 2021, we recorded a $151 settlement charge in Other income, net and remeasured assets and benefit obligations related to one of the Company’s pension plans. The remeasurement resulted in a net actuarial gain of $1,642, which is included in Other comprehensive income. The $1,642 reflects a gain of $923 primarily driven by an increase in the discount rate from approximately 2.6% at

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December 31, 2020 to approximately 2.8% as of the remeasurement date, as well as a gain of $719 primarily driven by asset returns in excess of expected returns.

**Note 13 – Share-Based Compensation and Other Compensation Arrangements**

**Stock Options**

On February 17, 2021, we granted 342,986 premium-priced stock options to our executive officers as part of our long-term incentive program. These stock options have an exercise price equal to 120% of the fair market value of our stock on the date of grant. The stock options are scheduled to vest and become exercisable three years after the grant date and expire ten years after the grant date. If an executive terminates employment because of retirement, layoff, disability, or death, the executive (or beneficiary) may receive some or all of their stock options depending on certain age and service conditions. The fair value of the stock options granted was $74.63 per unit and was estimated using a Monte-Carlo simulation model using the following assumptions: expected life 6.6 years, expected volatility 37.8%, risk free interest rate 1.3% and no expected dividend yield.

**Restricted Stock Units**

On February 17, 2021, we granted 980,077 restricted stock units (RSU) to our executives as part of our long-term incentive program. The RSUs granted under this program have a grant date fair value of $215.70 per unit and are generally scheduled to vest and settle in common stock (on a one-for-one basis) three years after the grant date. If an executive terminates employment because of retirement, layoff, disability, or death, the executive (or beneficiary) may receive some or all of their stock units depending on certain age and service conditions.

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**Note 14 – Shareholders' Equity**

**Accumulated Other Comprehensive Loss**

Changes in Accumulated other comprehensive loss (AOCI) by component for the nine and three months ended September 30, 2021 and 2020 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, 2020 | | | ($128) | |  |  | | | $1 | |  |  | | | ($84) | |  |  | | | ($15,942) | |  |  | | | ($16,153) | |  |
| Other comprehensive income/(loss) before reclassifications | | | 15 | |  |  | | |  | | |  | | | (107) | |  |  | | | (52) | |  |  | | | (144) | |  |
| Amounts reclassified from AOCI | | |  | | |  | | |  | | |  | | | 20 | |  |  | | | 498 | |  | (2) | | | 518 | |  |
| Net current period Other comprehensive income/(loss) | | | 15 | |  |  | | |  | | |  | | | (87) | |  |  | | | 446 | |  |  | | | 374 | |  |
| Balance at September 30, 2020 | | | ($113) | |  |  | | | $1 | |  |  | | | ($171) | |  |  | | | ($15,496) | |  |  | | | ($15,779) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2021** | | | **($30)** | |  |  | | | **$1** | |  |  | | | **($43)** | |  |  | | | **($17,061)** | |  |  | | | **($17,133)** | |  |
| **Other comprehensive (loss)/income before reclassifications** | | | **(63)** | |  |  | | |  | | |  | | | **64** | |  |  | | | **1,553** | |  | **(3)** | | | **1,554** | |  |
| **Amounts reclassified from AOCI** | | |  | | |  | | |  | | |  | | | **(6)** | |  |  | | | **767** | |  | **(2)** | | | **761** | |  |
| **Net current period Other comprehensive (loss)/income** | | | **(63)** | |  |  | | |  | | |  | | | **58** | |  |  | | | **2,320** | |  |  | | | **2,315** | |  |
| **Balance at September 30, 2021** | | | **($93)** | |  |  | | | **$1** | |  |  | | | **$15** | |  |  | | | **($14,741)** | |  |  | | | **($14,818)** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance at June 30, 2020 | | | ($161) | |  |  | | | $1 | |  |  | | | ($258) | |  |  | | | ($15,607) | |  |  | | | ($16,025) | |  |
| Other comprehensive income/(loss) before reclassifications | | | 48 | |  |  | | |  | | |  | | | 79 | |  |  | | | (40) | |  |  | | | 87 | |  |
| Amounts reclassified from AOCI | | |  | | |  | | |  | | |  | | | 8 | |  |  | | | 151 | |  | (2) | | | 159 | |  |
| Net current period Other comprehensive income | | | 48 | |  |  | | |  | | |  | | | 87 | |  |  | | | 111 | |  |  | | | 246 | |  |
| Balance at September 30, 2020 | | | ($113) | |  |  | | | $1 | |  |  | | | ($171) | |  |  | | | ($15,496) | |  |  | | | ($15,779) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at June 30, 2021** | | | **($52)** | |  |  | | | **$1** | |  |  | | | **$20** | |  |  | | | **($16,630)** | |  |  | | | **($16,661)** | |  |
| **Other comprehensive (loss)/income before reclassifications** | | | **(41)** | |  |  | | |  | | |  | | | **(1)** | |  |  | | | **1,543** | |  | **(3)** | | | **1,501** | |  |
| **Amounts reclassified from AOCI** | | |  | | |  | | |  | | |  | | | **(4)** | |  |  | | | **346** | |  | **(2)** | | | **342** | |  |
| **Net current period Other comprehensive (loss)/income** | | | **(41)** | |  |  | | |  | | |  | | | **(5)** | |  |  | | | **1,889** | |  |  | | | **1,843** | |  |
| **Balance at September 30, 2021** | | | **($93)** | |  |  | | | **$1** | |  |  | | | **$15** | |  |  | | | **($14,741)** | |  |  | | | **($14,818)** | |  |

(1) Net of tax.

(2) Primarily relates to amortization of actuarial losses for the nine and three months ended September 30, 2020 $562 and $172 (net of tax of ($179) and ($76)) and nine and three months ended September 30, 2021 totaling $690 and $227 (net of tax of ($182) and ($60)). These are included in the net periodic pension cost.

(3) Primarily relates to remeasurement of assets and benefit obligations related to the Company's pension plans resulting in an actuarial gain for the nine and three months ended September 30, 2021 of $1,551 and $1,544 (net of tax of ($106) and ($104)). See Note 12.

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**Note 15 – Derivative Financial Instruments**

**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 2031. 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 2029.

**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 and commodity swaps 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 2021** | | | December 31 2020 | | | **September 30 2021** | | | December 31 2020 | | | **September 30 2021** | | | December 31 2020 | | |
| Derivatives designated as hedging instruments: | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Foreign exchange contracts | | | **$2,581** | |  | $2,594 | |  | **$24** | |  | $81 | |  | **($50)** | |  | ($24) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Commodity contracts | | | **586** | |  | 404 | |  | **116** | |  | 4 | |  | **(11)** | |  | (43) | |  |
| Derivatives not receiving hedge accounting treatment: | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Foreign exchange contracts | | | **550** | |  | 769 | |  | **8** | |  | 22 | |  | **(2)** | |  | (16) | |  |
| Commodity contracts | | | **974** | |  | 904 | |  | **10** | |  |  | | | **(24)** | |  | (17) | |  |
| Total derivatives | | | **$4,691** | |  | $4,671 | |  | **$158** | |  | $107 | |  | **($87)** | |  | ($100) | |  |
| Netting arrangements | | |  | | |  | | | **(51)** | |  | (31) | |  | **51** | |  | 31 | |  |
| Net recorded balance | | |  | | |  | | | **$107** | |  | $76 | |  | **($36)** | |  | ($69) | |  |

(1)Notional amounts represent the gross contract/notional amount of the derivatives outstanding.

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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Recognized in Other comprehensive income, net of taxes: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Foreign exchange contracts | | | **($49)** | |  |  | | | ($58) | |  |  | | | **($43)** | |  |  | | | $54 | |  |
| Commodity contracts | | | **113** | |  |  | | | (49) | |  |  | | | **42** | |  |  | | | 25 | |  |

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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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Foreign exchange contracts | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenues | | |  | | |  | | | ($2) | |  |  | | |  | | |  | | | ($1) | |  |
| Costs and expenses | | | **$8** | |  |  | | | (12) | |  |  | | | **$5** | |  |  | | | (6) | |  |
| General and administrative | | | **9** | |  |  | | | (5) | |  |  | | |  | | |  | | |  | | |
| Commodity contracts | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Costs and expenses | | | **(13)** | |  |  | | | (6) | |  |  | | |  | | |  | | | (3) | |  |
| General and administrative expense | | | **4** | |  |  | | | (1) | |  |  | | | **1** | |  |  | | |  | | |

Gains related to undesignated derivatives on foreign exchange and commodity cash flow hedging transactions recognized in Other income, net were insignificant for the nine and three months ended September 30, 2021 and 2020.

Based on our portfolio of cash flow hedges, we expect to reclassify gains of $20 (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 and commodity 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, 2021 was $9. At September 30, 2021, there was no collateral posted related to our derivatives.

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**Note 16 – 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, 2021** | | | | | | | | | | | | | | | | | |  | December 31, 2020 | | | | | | | | | | | | |  |  |  |  |  |  |  |  |  |
|  | | | **Total** | | |  | | | **Level 1** | | |  | | | **Level 2** | | |  | | |  |  | Total | | |  | | | Level 1 | | |  | | | Level 2 | | |  | | |  | | |
| **Assets** | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Money market funds | | | **$1,551** | |  |  | | | **$1,551** | |  |  | | |  | | |  | | |  |  | $2,230 | |  |  | | | $2,230 | |  |  | | |  | | |  | | |  | | |
| Available-for-sale debt investments: | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Commercial paper | | | **266** | |  |  | | |  | | |  | | | **$266** | |  |  | | |  |  | 149 | |  |  | | |  | | |  | | | $149 | |  |  | | |  | | |
| Corporate notes | | | **230** | |  |  | | |  | | |  | | | **230** | |  |  | | |  |  | 333 | |  |  | | |  | | |  | | | 333 | |  |  | | |  | | |
| U.S. government agencies | | | **1** | |  |  | | |  | | |  | | | **1** | | |  | | |  |  | 114 | |  |  | | |  | | |  | | | 114 | |  |  | | |  | | |
| Other equity investments | | | **11** | |  |  | | | **11** | |  |  | | |  | | |  | | |  |  | 54 | |  |  | | | 54 | |  |  | | |  | | |  | | |  | | |
| Derivatives | | | **107** | |  |  | | |  | | |  | | | **107** | |  |  | | |  |  | 76 | |  |  | | |  | | |  | | | 76 | |  |  | | |  | | |
| Total assets | | | **$2,166** | |  |  | | | **$1,562** | |  |  | | | **$604** | |  |  | | |  |  | $2,956 | |  |  | | | $2,284 | |  |  | | | $672 | |  |  | | |  | | |
| **Liabilities** | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Derivatives | | | **($36)** | |  |  | | |  | | |  | | | **($36)** | |  |  | | |  |  | ($69) | |  |  | | |  | | |  | | | ($69) | |  |  | | |  | | |
| Total liabilities | | | **($36)** | |  |  | | |  | | |  | | | **($36)** | |  |  | | |  |  | ($69) | |  |  | | |  | | |  | | | ($69) | |  |  | | |  | | |

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 and commodity 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.

Certain assets have been measured at fair value on a nonrecurring basis. 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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **2021** | | | | | | | | | | | | | | | | | | | | |  | | | 2020 | | | | | | | | | | | | | | | | | | | | |
|  | | | **Total** | | |  | | | **Level 2** | | |  | | | **Level 3** | | |  | | | **Total Losses** | | |  | | | Total | | |  | | | Level 2 | | |  | | | Level 3 | | |  | | | Total Losses | | |
| Customer financing assets | | | **$17** | |  |  | | |  | | |  | | | **$17** | |  |  | | | **($12)** | |  |  | | | $100 | |  |  | | |  | | |  | | | $100 | |  |  | | | ($22) | |  |
| Investments | | | **—** | |  |  | | |  | | |  | | |  | | |  | | | **(8)** | |  |  | | | 51 | |  |  | | |  | | |  | | | 51 | |  |  | | | (62) | |  |
| Property, plant and equipment | | | **103** | |  |  | | | **$103** | |  |  | | |  | | |  | | | **(45)** | |  |  | | | 81 | |  |  | | |  | | |  | | | 81 | |  |  | | | (75) | |  |
| Other Assets and Acquired intangible assets | | | **—** | |  |  | | |  | | |  | | |  | | |  | | | **(7)** | |  |  | | | 199 | |  |  | | |  | | |  | | | 199 | |  |  | | | (158) | |  |
| Total | | | **$120** | |  |  | | | **$103** | |  |  | | | **$17** | |  |  | | | **($72)** | |  |  | | | $431 | |  |  | | | — | |  |  | | | $431 | |  |  | | | ($317) | |  |

Level 3 Investments, Property, plant and equipment, Other Assets and Acquired Intangibles were primarily valued using an income approach based on the discounted cash flows associated with the underlying assets. Level 2 Property, plant and equipment were valued based on a third party valuation using a combination of income and market approaches that considered estimates of net operating income,

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capitalization rates and adjusted for as-is condition. The fair value of the impaired customer financing assets 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 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 year ended September 30, 2021, 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 | | |
| Customer financing assets | | | $17 | | |  | | | Market approach | | |  | | | Aircraft value publications | | |  | | | $16 - $24(1)  Median $19 | | |
|  | | |  | | | Aircraft condition adjustments | | |  | | | ($5) - $3(2)  Net ($2) | | |

(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, 2021** | | | | | | | | | | | | | | |
|  | | | **Carrying Amount** | | | **Total Fair Value** | | | **Level 1** | | | **Level 2** | | | **Level 3** | | |
| **Assets** | | |  | | |  | | |  | | |  | | |  | | |
| Notes receivable, net | | | **$414** | |  | **$493** | |  |  | | | **$493** | |  |  | | |
| **Liabilities** | | |  | | |  | | |  | | |  | | |  | | |
| Debt, excluding finance lease obligations | | | **(62,238)** | |  | **(70,107)** | |  |  | | | **(70,107)** | |  |  | | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | December 31, 2020 | | | | | | | | | | | | | | |
|  | | | Carrying Amount | | | Total Fair Value | | | Level 1 | | | Level 2 | | | Level 3 | | |
| **Assets** | | |  | | |  | | |  | | |  | | |  | | |
| Notes receivable, net | | | $420 | |  | $488 | |  |  | | | $488 | |  |  | | |
| **Liabilities** | | |  | | |  | | |  | | |  | | |  | | |
| Debt, excluding finance lease obligations | | | (63,380) | |  | (72,357) | |  |  | | | (72,342) | |  | ($15) | |  |

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

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to estimate the fair value of our indemnifications and financing commitments because the amount and timing of those 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, Other current assets, 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, 2021 and December 31, 2020. 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 17 – 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. Except as described below, 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 subject to, and cooperating with ongoing governmental and regulatory investigations and inquiries relating to the accidents and the 737 MAX, including an investigation by the Securities and Exchange Commission, the outcome of which may be material. Other than with respect to the agreement described below with the U.S. Department of Justice, we cannot reasonably estimate a range of loss, if any, not covered by available insurance that may result given the current status of the pending lawsuits, investigations, and inquiries related to the 737 MAX.

On January 6, 2021, we entered into a Deferred Prosecution Agreement with the U.S. Department of Justice that resolves the Department of Justice’s previously disclosed investigation into us regarding the evaluation of the 737 MAX airplane by the Federal Aviation Administration. Under the terms of the Deferred Prosecution Agreement, we agreed to the filing of a criminal information charging the Company with one count of conspiracy to defraud the United States, based on the conduct of two former 737 MAX program technical pilots; the criminal information will be dismissed after three years, provided that we comply with our obligations under the agreement. The Deferred Prosecution Agreement requires that we make payments totaling $2.51 billion, which consist of (a) a $243.6 million criminal monetary penalty; (b) $500 million in additional compensation to the heirs and/or beneficiaries of those who died in the Lion Air Flight 610 and Ethiopian Airlines Flight 302 accidents; and (c) $1.77 billion to the Company’s airline customers for harm incurred as a result of the grounding of the 737 MAX, offset in part by payments already made and the remainder satisfied through payments to be made prior to the termination of the Deferred Prosecution Agreement. The agreement also requires that we review our compliance program and undertake continuous improvement efforts with respect to it, and implement enhanced compliance reporting and internal controls mechanisms. We expensed $743.6 million in the fourth quarter of 2020 related to this agreement. During the first quarter, consistent with the terms of the Deferred Prosecution Agreement, the monetary penalty was paid, and the $500 million compensation amount was transferred to a fund established to benefit the heirs and/or beneficiaries of the victims of the 737 MAX accidents. In addition, the $1.77 billion amount related to the Company’s airline customers was included in amounts reserved in prior quarters for 737 MAX customer considerations.

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During 2019, we entered into agreements with Embraer S.A. (Embraer) to establish joint ventures that included the commercial aircraft and services operations of Embraer, of which we were expected to acquire an 80 percent ownership stake for $4,200, as well as a joint venture to promote and develop new markets for the C-390 Millennium. In 2020, we exercised our contractual right to terminate these agreements based on Embraer’s failure to meet certain required closing conditions. Embraer has disputed our right to terminate the agreements, and the dispute is currently in arbitration. We cannot reasonably estimate a range of loss, if any, that may result from the arbitration.

**Note 18 – Segment and Revenue Information**

Our primary profitability measurements to review a segment’s operating results are Earnings/(loss) 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.

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

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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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenue from contracts with customers: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Europe | | | **$2,776** | |  |  | | | $3,595 | |  |  | | | **$1,223** | |  |  | | | $1,293 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Asia | | | **1,958** | |  |  | | | 1,964 | |  |  | | | **186** | |  |  | | | 500 | |  |
| Middle East | | | **719** | |  |  | | | 556 | |  |  | | | **206** | |  |  | | |  | | |
| Other | | | **1,219** | |  |  | | | 465 | |  |  | | | **220** | |  |  | | | 12 | |  |
| Total non-U.S. revenues | | | **6,672** | |  |  | | | 6,580 | |  |  | | | **1,835** | |  |  | | | 1,805 | |  |
| United States | | | **8,012** | |  |  | | | 5,190 | |  |  | | | **2,594** | |  |  | | | 1,633 | |  |
| Estimated potential concessions and other considerations to 737 MAX customers, net | | | **1** | |  |  | | | (370) | |  |  | | | **(7)** | |  |  | | | 151 | |  |
| Total revenues from contracts with customers | | | **14,685** | |  |  | | | 11,400 | |  |  | | | **4,422** | |  |  | | | 3,589 | |  |
| Intersegment revenues eliminated on consolidation | | | **58** | |  |  | | | 34 | |  |  | | | **37** | |  |  | | | 7 | |  |
| Total segment revenues | | | **$14,743** | |  |  | | | $11,434 | |  |  | | | **$4,459** | |  |  | | | $3,596 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized on fixed-price contracts | | | **100** | | **%** |  | | | 100 | | % |  | | | **100** | | **%** |  | | | 100 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized at a point in time | | | **100** | | **%** |  | | | 100 | | % |  | | | **99** | | **%** |  | | | 100 | | % |

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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenue from contracts with customers: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| U.S. customers | | | **$15,464** | |  |  | | | $14,465 | |  |  | | | **$4,833** | |  |  | | | $5,312 | |  |
| Non U.S. customers(1) | | | **5,214** | |  |  | | | 5,013 | |  |  | | | **1,784** | |  |  | | | 1,536 | |  |
| Total segment revenue from contracts with customers | | | **$20,678** | |  |  | | | $19,478 | |  |  | | | **$6,617** | |  |  | | | $6,848 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized over time | | | **99** | | **%** |  | | | 99 | | % |  | | | **99** | | **%** |  | | | 99 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized on fixed-price contracts | | | **68** | | **%** |  | | | 68 | | % |  | | | **67** | | **%** |  | | | 69 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue from the U.S. government(1) | | | **89** | | **%** |  | | | 89 | | % |  | | | **89** | | **%** |  | | | 90 | | % |

(1)Includes revenues earned from foreign military sales through the U.S. government.

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BGS revenues consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenue from contracts with customers: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Commercial | | | **$5,392** | |  |  | | | $5,382 | |  |  | | | **$1,961** | |  |  | | | $1,488 | |  |
| Government | | | **6,465** | |  |  | | | 6,241 | |  |  | | | **2,193** | |  |  | | | 2,142 | |  |
| Total revenues from contracts with customers | | | **11,857** | |  |  | | | 11,623 | |  |  | | | **4,154** | |  |  | | | 3,630 | |  |
| Intersegment revenues eliminated on consolidation | | | **180** | |  |  | | | 187 | |  |  | | | **67** | |  |  | | | 64 | |  |
| Total segment revenues | | | **$12,037** | |  |  | | | $11,810 | |  |  | | | **$4,221** | |  |  | | | $3,694 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized at a point in time | | | **45** | | **%** |  | | | 47 | | % |  | | | **46** | | **%** |  | | | 42 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue recognized on fixed-price contracts | | | **87** | | **%** |  | | | 88 | | % |  | | | **87** | | **%** |  | | | 87 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Revenue from the U.S. government(1) | | | **41** | | **%** |  | | | 41 | | % |  | | | **40** | | **%** |  | | | 45 | | % |

(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, 2021 was $367,108. We expect approximately 25% to be converted to revenue through 2022 and approximately 78% through 2025, with the remainder thereafter. There is significant uncertainty regarding the timing of when backlog will convert into revenue due to the 737 MAX grounding in non-U.S. jurisdictions, 787 production issues and associated rework, timing of entry into service of the 777X, 737 MAX 7 and/or 737 MAX 10, and COVID-19 impacts.

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**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 (CAS). Components of Unallocated items, eliminations and other are shown in the following table.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Share-based plans | | | **($171)** | |  |  | | | ($80) | |  |  | | | **($29)** | |  |  | | | ($37) | |  |
| Deferred compensation | | | **(86)** | |  |  | | | 34 | |  |  | | | **8** | |  |  | | | (39) | |  |
| Amortization of previously capitalized interest | | | **(66)** | |  |  | | | (69) | |  |  | | | **(22)** | |  |  | | | (19) | |  |
| Research and development expense, net | | | **(144)** | |  |  | | | (160) | |  |  | | | **(59)** | |  |  | | | (44) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Eliminations and other unallocated items | | | **(565)** | |  |  | | | (690) | |  |  | | | **(268)** | |  |  | | | (175) | |  |
| Unallocated items, eliminations and other | | | **($1,032)** | |  |  | | | ($965) | |  |  | | | **($370)** | |  |  | | | ($314) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Pension FAS/CAS service cost adjustment | | | **$576** | |  |  | | | $773 | |  |  | | | **$192** | |  |  | | | $260 | |  |
| Postretirement FAS/CAS service cost adjustment | | | **232** | |  |  | | | 282 | |  |  | | | **78** | |  |  | | | 93 | |  |
| FAS/CAS service cost adjustment | | | **$808** | |  |  | | | $1,055 | |  |  | | | **$270** | |  |  | | | $353 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

**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 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 Financial Accounting Standards (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, net.

**Assets**

Segment assets are summarized in the table below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Commercial Airplanes | | | **$78,906** | |  |  | | | $77,973 | |  |
| Defense, Space & Security | | | **15,748** | |  |  | | | 14,256 | |  |
| Global Services | | | **16,839** | |  |  | | | 17,399 | |  |
| Boeing Capital | | | **1,797** | |  |  | | | 1,978 | |  |
| Unallocated items, eliminations and other | | | **33,556** | |  |  | | | 40,530 | |  |
| Total | | | **$146,846** | |  |  | | | $152,136 | |  |

Assets included in Unallocated items, eliminations and other primarily consist of Cash and cash equivalents, Short-term and other investments, tax assets, capitalized interest and assets managed centrally on behalf of the four principal business segments and intercompany eliminations.

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**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, 2021, the related condensed consolidated statements of operations, comprehensive income, and equity for the three-month and nine-month periods ended September 30, 2021 and 2020, and of cash flows for the nine-month periods ended September 30, 2021 and 2020, and the related notes (collectively referred to as the "condensed consolidated interim financial information"). Based on our review, 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) (the "PCAOB"), the consolidated statement of financial position of the Company as of December 31, 2020, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated February 1, 2021, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2020, 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 review 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 27, 2021

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| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **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 COVID-19 pandemic and related industry impacts, including with respect to our operations and access to suppliers, our liquidity, the health of our customers and suppliers, and future demand for our products and services; | | |
|  | | |  | | |
| (2) | | | the 737 MAX, including the timing and conditions of remaining 737 MAX regulatory approvals, lower than planned production rates and/or delivery rates, and increased considerations to customers and suppliers; | | |
|  | | |  | | |
| (3) | | | general conditions in the economy and our industry, including those due to regulatory changes; | | |
|  | | |  | | |
| (4) | | | our reliance on our commercial airline customers; | | |
|  | | |  | | |
| (5) | | | 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; | | |
|  | | |  | | |
| (6) | | | changing budget and appropriation levels and acquisition priorities of the U.S. government; | | |
|  | | |  | | |
| (7) | | | our dependence on U.S. government contracts; | | |
|  | | |  | | |
| (8) | | | our reliance on fixed-price contracts; | | |
|  | | |  | | |
| (9) | | | our reliance on cost-type contracts; | | |
|  | | |  | | |
| (10) | | | uncertainties concerning contracts that include in-orbit incentive payments; | | |
|  | | |  | | |
| (11) | | | our dependence on our subcontractors and suppliers as well as the availability of raw materials; | | |
|  | | |  | | |
| (12) | | | changes in accounting estimates; | | |
|  | | |  | | |
| (13) | | | changes in the competitive landscape in our markets; | | |
|  | | |  | | |
| (14) | | | our non-U.S. operations, including sales to non-U.S. customers; | | |
|  | | |  | | |
| (15) | | | threats to the security of our or our customers' information; | | |
|  | | |  | | |
| (16) | | | potential adverse developments in new or pending litigation and/or government investigations; | | |
|  | | |  | | |
| (17) | | | customer and aircraft concentration in our customer financing portfolio; | | |
|  | | |  | | |

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| (18) | | | changes in our ability to obtain debt financing on commercially reasonable terms and at competitive rates; | | |
|  | | |  | | |
| (19) | | | realizing the anticipated benefits of mergers, acquisitions, joint ventures, strategic alliances or divestitures; | | |
|  | | |  | | |
| (20) | | | the adequacy of our insurance coverage to cover significant risk exposures; | | |
|  | | |  | | |
| (21) | | | potential business disruptions, including those related to physical security threats, information technology or cyber attacks, epidemics, sanctions or natural disasters; | | |
|  | | |  | | |
| (22) | | | work stoppages or other labor disruptions; | | |
|  | | |  | | |
| (23) | | | substantial pension and other postretirement benefit obligations; and | | |
|  | | |  | | |
| (24) | | | 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. | | | | | |
|  | | |  | | |
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**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**Consolidated Results of Operations and Financial Condition**

**Overview**

The global outbreak of COVID-19, 787 production issues and associated rework, and the residual impacts of the 737 MAX grounding in 2019 continue to have significant adverse impacts on our business and are expected to continue to negatively impact revenue, earnings and operating cash flow in future quarters. They are also having a significant impact on our liquidity - see Liquidity Matters in Note 1 to our Condensed Consolidated Financial Statements for a further discussion of liquidity and additional actions we are taking in response to these challenges.

The COVID-19 pandemic has caused an unprecedented shock to demand for commercial air travel, creating a tremendous challenge for our customers, our business and the entire commercial aerospace manufacturing and services sectors. The latest International Air Transport Association (IATA) forecast projects recovery of passenger traffic in 2021 to approximately 40% of 2019 levels, as international markets see continued reopening challenges. Additionally, global economic activity is improving, but continues to be impacted by COVID-19, and governments continue to severely restrict travel to contain the spread of the virus. While recovery is accelerating, we continue to expect that that it will remain uneven as travel restrictions and varying regional travel protocols continue to impact air travel.

Generally, we expect domestic travel to recover faster than international travel. As a result, we expect the narrow-body market to recover faster than the wide-body market. Also, the pace of the commercial market recovery will be heavily dependent on COVID-19 infection rates, vaccination rates, and government travel and other restrictions on trade and commercial activity. Demand for dedicated freighters continues to be strong, underpinned by a strong recovery in global trade and overall air cargo growth. Overall cargo capacity remains challenged given the large impact that COVID-19 has had on international passenger operations, which also carry cargo.

Airline financial performance, which also plays a role in the demand for new capacity, has been adversely impacted by the COVID-19 pandemic. According to IATA, net losses for the airline industry were $138 billion in 2020 and are expected to be approximately $52 billion in 2021. Our customers are taking actions to combat the effects of the COVID-19 pandemic on the market by preserving liquidity. This comes in many forms such as deferrals of advances and other payments to suppliers, deferrals of deliveries, reduced spending on services, and, in some cases, cancellation of orders. While the outlook is improving and we have seen an increase in new orders in 2021, we continue to face a challenging environment in the near to medium term as airlines have adjusted to reduced traffic which in turn has resulted in lower demand for commercial aerospace products and services. The current environment is also affecting the financial viability of some airlines.

We continue to expect commercial air travel to return to 2019 levels in 2023 to 2024. We expect it will take a few years beyond that for the industry to return to long-term trend growth. To balance the supply and demand given the COVID-19 shock and to preserve our long-term potential and competitiveness, we have reduced the production rates of several of our Commercial Airplanes (BCA) programs. These rate decisions are based on our ongoing assessments of the demand environment and availability of aircraft financing. There is significant uncertainty with respect to when commercial air traffic levels will recover, and whether, and at what point, capacity will return to and/or exceed pre-COVID-19 levels. During the fourth quarter of 2020, we made adjustments to our estimates regarding timing of 777X entry into service. We now anticipate that the first 777X delivery will occur in late 2023. We will closely monitor the key factors that affect backlog and future demand for each of our commercial aircraft programs, including customers’ evolving fleet plans, the wide-body replacement cycle and the cargo market. We will maintain a disciplined rate management process, and make adjustments as appropriate in the future. Notwithstanding the changes we have made to production rates, risk remains that further reductions will be required. Additionally, if we are unable to make timely deliveries of the large number of aircraft in inventory as of September 30, 2021, future revenues, earnings and cash flows will be adversely impacted.

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Deliveries and production have also been impacted by production issues and associated rework. For example, deliveries of the 787 are currently paused and the production rate has been reduced while we focus on inspections and rework and continue to engage in detailed discussions with the Federal Aviation Administration (FAA) regarding required actions for resuming deliveries. Risk remains that these issues may continue to impact the timing of delivery of airplanes in inventory and/or our ability to achieve planned production rates. Revenues, earnings, and cash flows will continue to be impacted until we are able to resume timely deliveries.

The long-term outlook for the industry remains positive due to the fundamental drivers of air travel demand: economic growth, increasing propensity to travel due to increased trade, globalization, and improved airline services driven by liberalization of air traffic rights between countries. The shock from COVID-19 has reduced the near to medium term demand, but our Commercial Market Outlook forecast projects a 4% growth rate for passenger and cargo traffic over a 20 year period. Based on long-term global economic growth projections of 2.7% average annual GDP growth, we project demand for approximately 43,610 new airplanes over the next 20 years. The industry remains vulnerable to exogenous developments including fuel price spikes, credit market shocks, acts of terrorism, natural disasters, conflicts, epidemics, pandemics and increased global environmental regulations.

The Continuing Resolution (CR), enacted by U.S. Congress on September 30, 2021, continues federal funding at FY21 appropriated levels through December 3, 2021. Congress and the President must enact either full-year FY22 appropriations bills or an additional CR to fund government departments and agencies beyond December 3, 2021 or a government shutdown could result, which may impact the Company’s operations.

Deliveries of the 737 MAX resumed in the fourth quarter of 2020, when the FAA rescinded the order that grounded 737 MAX aircraft in the U.S. In addition, other non-U.S. civil aviation authorities, including the Brazilian National Civil Aviation Agency, Transport Canada, and the European Union Aviation Safety Agency (EASA) have subsequently approved return of operations, allowing us to resume deliveries in those jurisdictions. About 175 countries have approved the resumption of 737 MAX operations. Orders to suspend operations of 737 MAX aircraft from certain non-U.S. civil aviation authorities, including the Civil Aviation Administration of China, are still in effect. The grounding has had a significant adverse impact on our operations and creates significant uncertainty. We are focused on safely returning the 737 MAX to service for all of our customers.

At Global Services (BGS), while the outlook is improving, we are continuing to see a direct impact on our commercial supply chain business as fewer flights and more aircraft parked and/or retired result in a decreased demand for our parts and logistics offerings. Additionally, our commercial customers are curtailing discretionary spending, such as modifications and upgrades and focusing on required maintenance. Similar to BCA, we expect a multi-year recovery period for the commercial services business. The demand outlook for our government services business, which in 2019 accounted for just under half of BGS revenue, remains stable.

At Defense, Space & Security (BDS), we continue to see a healthy market with solid demand for our major platforms and programs both domestically and internationally. However, while we continue to experience near-term production disruptions and inefficiencies due to COVID-19 impacts, we are seeing improvements in 2021.

We have implemented procedures to promote employee safety in our facilities, including more frequent and enhanced cleaning and adjusted schedules and work flows to support physical distancing. These actions have resulted, and will continue to result, in increased operating costs. In addition, a number of our suppliers have suspended or otherwise reduced their operations, and we are experiencing some supply chain shortages. Our suppliers are also experiencing liquidity pressures and disruptions to their operations as a result of COVID-19. We continue to monitor the health and stability of the supply chain as we ramp up production. We also continue to have large numbers of employees working from home. These measures and disruptions have reduced overall productivity and adversely impacted our financial position, results of operations, and cash flows. We expect further adverse impacts in future quarters.

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On September 9, 2021, President Biden signed an Executive Order mandating vaccinations for the federal workforce and federal contractors. On September 24, 2021, the Administration released implementation guidelines, which require that all federal contractors and other workers at federal contractor workplaces either be fully vaccinated or have an approved reasonable accommodation for disability or sincerely held religious belief, and requirements to follow CDC guidance at contractor workplaces. Boeing is requiring our U.S.-based workers to be fully vaccinated or have an approved reasonable accommodation by December 8, 2021. We will be monitoring these requirements and their implementation for any potential impacts to our operations.

In July 2020, we announced business transformation efforts to assess our business across five key pillars: infrastructure, overhead and organization, portfolio and investments, supply chain health and operational excellence. We continue to make progress across all five key pillars as we utilize a lower production rate environment to transform and improve our business processes. Within the infrastructure pillar we are assessing our overall facility requirements in light of reduced demand in our commercial businesses and remote and virtual work opportunities for large numbers of our workforce. The consolidation of the 787 production in South Carolina during the first quarter of 2021 is an example of this. We also anticipate a reduction of approximately 30% in office space needs compared to our pre-COVID capacity. During 2020 and 2021, we have made certain reductions to our footprint and are planning to implement further reductions in 2021 and over the next few years. However, as we consolidate our footprint, terminate leases and dispose of properties, we may incur near term adverse impacts to earnings. The overhead and organization pillar is focused on our cost structure and how we are organized so we can right size our workforce and simplify and reduce management layers and bureaucracy. We have recorded severance costs for approximately 19,000 employees. The portfolio and investments pillar includes aligning our portfolio and investments to focus on our core business and the changes in market conditions. Through our portfolio and investment prioritization, we are reducing research and development and capital expenditures. The supply chain pillar is focused on supply chain health and stability, reducing indirect procurement spend and streamlining our transportation, logistics and warehousing approach. We are reducing indirect spend by reducing expenditures in areas such as freight and logistics, purchased services and others. The operational excellence pillar is focused on improving performance, enhancing quality and reducing rework. For example, our information technology teams are evaluating opportunities to form or expand strategic partnerships with vendors that allow us to simplify and optimize our operations, and reduce overall costs. These activities are not intended to constrain our capacity, but rather to enable the Company to emerge stronger and be more resilient when the market recovers. We expect that successful execution of these measures will improve near term liquidity and long term cost competitiveness.

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**Consolidated Results of Operations**

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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$47,493** | |  |  | | | $42,854 | |  |  | | | **$15,278** | |  |  | | | $14,139 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **GAAP** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Earnings/(loss) from operations | | | **$1,269** | |  |  | | | ($4,718) | |  |  | | | **$329** | |  |  | | | ($401) | |  |
| Operating margins | | | **2.7** | | **%** |  | | | (11.0) | | % |  | | | **2.2** | | **%** |  | | | (2.8) | | % |
| Effective income tax rate | | | **62.2** | | **%** |  | | | 40.1 | | % |  | | | **57.4** | | **%** |  | | | 49.6 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Net loss attributable to Boeing Shareholders | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |
| Diluted loss per share | | | **($0.10)** | |  |  | | | ($6.10) | |  |  | | | **($0.19)** | |  |  | | | ($0.79) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Non-GAAP (1)** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Core operating earnings/(loss) | | | **$461** | |  |  | | | ($5,773) | |  |  | | | **$59** | |  |  | | | ($754) | |  |
| Core operating margins | | | **1.0** | | **%** |  | | | (13.5) | | % |  | | | **0.4** | | **%** |  | | | (5.3) | | % |
| Core loss per share | | | **($1.72)** | |  |  | | | ($7.88) | |  |  | | | **($0.60)** | |  |  | | | ($1.39) | |  |

(1)These measures exclude certain components of pension and other postretirement benefit expense. See pages 57-59 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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Commercial Airplanes | | | **$14,743** | |  |  | | | $11,434 | |  |  | | | **$4,459** | |  |  | | | $3,596 | |  |
| Defense, Space & Security | | | **20,678** | |  |  | | | 19,478 | |  |  | | | **6,617** | |  |  | | | 6,848 | |  |
| Global Services | | | **12,037** | |  |  | | | 11,810 | |  |  | | | **4,221** | |  |  | | | 3,694 | |  |
| Boeing Capital | | | **209** | |  |  | | | 205 | |  |  | | | **71** | |  |  | | | 71 | |  |
| Unallocated items, eliminations and other | | | **(174)** | |  |  | | | (73) | |  |  | | | **(90)** | |  |  | | | (70) | |  |
| Total | | | **$47,493** | |  |  | | | $42,854 | |  |  | | | **$15,278** | |  |  | | | $14,139 | |  |

Revenues for the nine months ended September 30, 2021 increased by $4,639 million compared with the same period in 2020 driven by higher revenues at BCA, BDS, and BGS. BCA revenues increased by $3,309 million primarily driven by higher 737 MAX deliveries due to recertification and return to service in many jurisdictions and $370 million of charges for 737 MAX customer considerations in 2020, partially offset by lower 787 deliveries. BDS revenues increased by $1,200 million primarily from higher revenue on the KC-46A Tanker program and the absence of charges related to the KC-46A Tanker program in 2021. BGS revenues increased by $227 million primarily due to higher commercial services and government services volume. While commercial services volume is beginning to recover, it remains below pre-pandemic levels.

Revenues for the three months ended September 30, 2021 increased by $1,139 million driven by higher revenues at BCA and BGS, partially offset by lower revenues at BDS. BCA revenues increased by $863 million primarily driven by higher 737 MAX deliveries due to recertification and return to service in many jurisdictions, partially offset by lower 787 deliveries. BDS revenues decreased by $231 million primarily

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due to changes on Commercial Crew in 2021 and net lower volume. BGS revenues increased by $527 million primarily due to higher commercial services volume.

Revenues will continue to be significantly impacted until deliveries ramp up and the commercial airline industry recovers from the impacts of COVID-19.

**Earnings/(Loss) From Operations**

The following table summarizes Earnings/(loss) from operations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Commercial Airplanes | | | **($2,021)** | |  |  | | | ($6,199) | |  |  | | | **($693)** | |  |  | | | ($1,369) | |  |
| Defense, Space & Security | | | **1,799** | |  |  | | | 1,037 | |  |  | | | **436** | |  |  | | | 628 | |  |
| Global Services | | | **1,616** | |  |  | | | 307 | |  |  | | | **644** | |  |  | | | 271 | |  |
| Boeing Capital | | | **99** | |  |  | | | 47 | |  |  | | | **42** | |  |  | | | 30 | |  |
| Segment operating earnings/(loss) | | | **1,493** | |  |  | | | (4,808) | |  |  | | | **429** | |  |  | | | (440) | |  |
| Pension FAS/CAS service cost adjustment | | | **576** | |  |  | | | 773 | |  |  | | | **192** | |  |  | | | 260 | |  |
| Postretirement FAS/CAS service cost adjustment | | | **232** | |  |  | | | 282 | |  |  | | | **78** | |  |  | | | 93 | |  |
| Unallocated items, eliminations and other | | | **(1,032)** | |  |  | | | (965) | |  |  | | | **(370)** | |  |  | | | (314) | |  |
| Earnings/(loss) from operations (GAAP) | | | **$1,269** | |  |  | | | ($4,718) | |  |  | | | **$329** | |  |  | | | ($401) | |  |
| FAS/CAS service cost adjustment \* | | | **(808)** | |  |  | | | (1,055) | |  |  | | | **(270)** | |  |  | | | (353) | |  |
| Core operating earnings/(loss) (Non-GAAP) \*\* | | | **$461** | |  |  | | | ($5,773) | |  |  | | | **$59** | |  |  | | | ($754) | |  |

\* 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 earnings/(loss) is a Non-GAAP measure that excludes the FAS/CAS service cost adjustment. See pages 57-59.

Earnings from operations for the nine months ended September 30, 2021 were $1,269 million, compared with a loss of $4,718 million during the same period in 2020. BCA loss from operations decreased by $4,178 million due to higher 737 MAX deliveries, lower period expense, lower 737 MAX customer considerations and lower research and development spending, partially offset by lower 787 deliveries. BDS earnings from operations increased by $762 million largely due to the absence of charges related to the KC-46A Tanker program in 2021.The increase was partially offset by a $185 million increase to the reach-forward loss on Commercial Crew in the third quarter of 2021 driven by the second uncrewed Orbital Flight Test now anticipated in 2022 and the latest assessment of remaining work, and higher charges in 2021 on VC-25B. BGS earnings from operations increased by $1,309 million primarily due to charges incurred in the second quarter of 2020 as a result of the COVID-19 pandemic, higher commercial services volume and severance costs of $130 million in 2020. Charges in the second quarter of 2020 included $370 million for higher expected credit losses primarily driven by customer liquidity issues, $237 million of inventory write-downs and $153 million of related impairments of distribution rights primarily driven by airlines' decisions to retire certain aircraft, $99 million of contract termination and facility impairments charges.

Earnings from operations for the three months ended September 30, 2021 were $329 million, compared with a loss of $401 million during the same period in 2020. BCA loss from operations decreased by $676 million due to higher 737 MAX deliveries, lower period expense, partially offset by favorable 737 MAX customer considerations in 2020 and lower 787 deliveries. BDS earnings from operations decreased by $192 million, primarily due to the $185 million charge on Commercial Crew. BGS earnings from operations increased by $373 million, primarily due to higher commercial services volume and severance charges incurred in 2020.

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Lower commercial airplane deliveries and the COVID-19 pandemic will continue to have a significant adverse impact on future earnings and margins until deliveries ramp up and return to historical levels.

Core operating earnings for the nine and three months ended September 30, 2021 were $461 million and $59 million, compared with core operating losses of $5,773 million and $754 million during the same periods in 2020, primarily due to earnings and losses from operations at BCA, BDS and BGS as described above.

**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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Share-based plans | | | **($171)** | |  |  | | | ($80) | |  |  | | | **($29)** | |  |  | | | ($37) | |  |
| Deferred compensation | | | **(86)** | |  |  | | | 34 | |  |  | | | **8** | |  |  | | | (39) | |  |
| Amortization of previously capitalized interest | | | **(66)** | |  |  | | | (69) | |  |  | | | **(22)** | |  |  | | | (19) | |  |
| Research and development expense, net | | | **(144)** | |  |  | | | (160) | |  |  | | | **(59)** | |  |  | | | (44) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Eliminations and other unallocated items | | | **(565)** | |  |  | | | (690) | |  |  | | | **(268)** | |  |  | | | (175) | |  |
| Unallocated items, eliminations and other | | | **($1,032)** | |  |  | | | ($965) | |  |  | | | **($370)** | |  |  | | | ($314) | |  |

Share-based plans expense for the nine and three months ended September 30, 2021 increased by $91 million and decreased by $8 million compared with the same periods in 2020. The higher expense during the nine months ended September 30, 2021 was primarily related to a one-time stock grant of Restricted Stock Units to most employees in December 2020. This grant was in lieu of a 2021 salary merit increase.

Deferred compensation expense was $86 million for the nine months ended September 30, 2021 compared with income of $34 million in the same period in 2020. Deferred compensation was income of $8 million for the three months ended September 30, 2021 compared with expense of $39 million in the same period in 2020. Changes in deferred compensation were primarily driven by broad market conditions and changes in our stock price.

Unallocated research and development expense for the nine and three months ended September 30, 2021 were relatively consistent with the same periods in 2020 and primarily related to enterprise investments in product development.

Eliminations and other unallocated items for the nine months ended September 30, 2021 decreased by $125 million compared with the same period in 2020 primarily due to higher income on operating investments in 2021. Eliminations and other unallocated items for the three months ended September 30, 2021 increased by $93 million compared with the same period in 2020 primarily due to the timing of expense allocations, partially offset by higher income on operating investments in 2021.

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Net periodic pension benefit costs included in Earnings/(loss) from operations were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
| **Pension Plans** | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Allocated to business segments | | | **($578)** | |  |  | | | ($775) | |  |  | | | **($192)** | |  |  | | | ($261) | |  |
| Pension FAS/CAS service cost adjustment | | | **576** | |  |  | | | 773 | |  |  | | | **192** | |  |  | | | 260 | |  |
| Net periodic benefit cost included in Earnings/(loss) from operations | | | **($2)** | |  |  | | | ($2) | |  |  | | | **$—** | |  |  | | | ($1) | |  |

The pension FAS/CAS service cost adjustment recognized in Earnings/(loss) from operations during the nine and three months ended September 30, 2021 decreased by $197 million and $68 million compared with the same periods in the prior year, due to reductions in allocated pension cost year over year. The net periodic benefit cost included in Earnings/(loss) from operations during 2021 and 2020 reflects the fact that nonunion and the majority of union employees have transitioned to company funded defined contribution retirement savings plans and do not generate ongoing Financial Accounting Standards (FAS) service costs.

For discussion related to Postretirement Plans, see Note 12 to our Condensed Consolidated Financial Statements.

**Other Earnings Items**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| **Earnings/(loss) from operations** | | | **$1,269** | |  |  | | | ($4,718) | |  |  | | | **$329** | |  |  | | | ($401) | |  |
| Other income, net | | | **419** | |  |  | | | 325 | |  |  | | | **30** | |  |  | | | 119 | |  |
| Interest and debt expense | | | **(2,021)** | |  |  | | | (1,458) | |  |  | | | **(669)** | |  |  | | | (643) | |  |
| **Loss before income taxes** | | | **(333)** | |  |  | | | (5,851) | |  |  | | | **(310)** | |  |  | | | (925) | |  |
| Income tax benefit | | | **207** | |  |  | | | 2,349 | |  |  | | | **178** | |  |  | | | 459 | |  |
| **Net loss from continuing operations** | | | **(126)** | |  |  | | | (3,502) | |  |  | | | **(132)** | |  |  | | | (466) | |  |
| Less: Net loss attributable to noncontrolling interest | | | **(67)** | |  |  | | | (49) | |  |  | | | **(23)** | |  |  | | | (17) | |  |
| **Net loss attributable to Boeing Shareholders** | | | **($59)** | |  |  | | | ($3,453) | |  |  | | | **($109)** | |  |  | | | ($449) | |  |

Other income, net increased by $94 million and decreased by $89 million during the nine and three months ended September 30, 2021 compared with the same periods in the prior year, primarily due to changes in non-operating pension income. Non-operating pension income increased $126 million during the nine months ended September 30, 2021 compared with the same period in 2020 primarily due to lower interest cost and higher expected return on plan assets, partially offset by higher settlement charges and higher amortization of net actuarial losses. Non-operating pension income decreased $55 million during the three months ended September 30, 2021 compared with the same period in 2020 primarily due to higher settlement charges and higher amortization of actuarial losses, partially offset by lower interest cost and higher expected return on plan assets. Non-operating postretirement income was $16 million and $6 million during the nine and three months ended September 30, 2021 compared with $37 million and $10 million of expense during the same periods in 2020.

Interest and debt expense for the nine and three months ended September 30, 2021 was higher compared with the same periods in the prior year primarily as a result of higher debt balances.

For discussion related to Income Taxes, see Note 3 to our Condensed Consolidated Financial Statements.

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**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** | | | | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | | Change | | | **2021** | | |  | | | 2020 | | | Change | | |
| Cost of sales | | | **$41,962** | |  |  | | | $42,851 | |  | ($889) | |  | **$13,566** | |  |  | | | $13,105 | |  | $461 | |  |
| Cost of sales as a % of Revenues | | | **88.4** | | **%** |  | | | 100.0 | | % | (11.6) | | % | **88.8** | | **%** |  | | | 92.7 | | % | (3.9) | | % |

Cost of sales for the nine months ended September 30, 2021 decreased by $889 million, or 2% compared with the same period in 2020, primarily due to higher period expense at BCA and BGS in 2020 and charges recorded at BDS in 2020 on the KC-46A Tanker program, partially offset by higher revenues in 2021. Cost of sales for the three months ended September 30, 2021 increased by $461 million, or 4% compared with the same period in 2020, primarily due to higher BCA and BGS revenues in 2021, partially offset by lower period expenses at BCA. Cost of sales as a percentage of Revenues decreased during the nine months ended September 30, 2021 compared with the same period in 2020 primarily due to higher period expense at BCA and BGS in 2020, higher revenues in 2021 and KC-46A Tanker charges recorded at BDS in 2020. Cost of sales as a percentage of Revenues decreased during the three months ended September 30, 2021 compared with the same period in 2020 primarily due to higher revenues at BCA and BGS in 2021.

**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** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Commercial Airplanes | | | **$817** | |  |  | | | $1,107 | |  |  | | | **$293** | |  |  | | | $321 | |  |
| Defense, Space & Security | | | **530** | |  |  | | | 494 | |  |  | | | **193** | |  |  | | | 164 | |  |
| Global Services | | | **80** | |  |  | | | 110 | |  |  | | | **30** | |  |  | | | 45 | |  |
| Other | | | **144** | |  |  | | | 160 | |  |  | | | **59** | |  |  | | | 44 | |  |
| Total | | | **$1,571** | |  |  | | | $1,871 | |  |  | | | **$575** | |  |  | | | $574 | |  |

Research and development expense decreased by $300 million during the nine months ended September 30, 2021 compared to the same period in 2020, primarily due to lower spending on the 777X program and lower BCA and enterprise investments in product development. Research and development expense during the three months ended September 30, 2021 was consistent with the same period in 2020.

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**Backlog**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Commercial Airplanes | | | **$289,644** | |  |  | | | $281,588 | |  |
| Defense, Space & Security | | | **58,435** | |  |  | | | 60,847 | |  |
| Global Services | | | **18,781** | |  |  | | | 20,632 | |  |
| Unallocated items, eliminations and other | | | **248** | |  |  | | | 337 | |  |
| **Total Backlog** | | | **$367,108** | |  |  | | | $363,404 | |  |
|  | | |  | | |  | | |  | | |
| Contractual backlog | | | **$348,193** | |  |  | | | $339,309 | |  |
| Unobligated backlog | | | **18,915** | |  |  | | | 24,095 | |  |
| **Total Backlog** | | | **$367,108** | |  |  | | | $363,404 | |  |

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 increase during the nine months ended September 30, 2021 was primarily due to orders in excess of deliveries, changes in price escalation, and changes in orders that in our assessment do not meet the accounting requirements of Accounting Standards Codification (ASC) 606 for inclusion in backlog, partially offset by cancellations. During 2021, we have had higher ASC 606 adjustments of 787 orders as a result of delivery delays related to the inspections and rework. If 737 MAX aircraft remain grounded in certain jurisdictions for an extended period of time, 787 aircraft deliveries continue to be paused, and/or if entry into service of the 777X, 737 MAX 7 and/or 737 MAX 10 is further delayed, we may experience additional reductions to backlog and/or significant order cancellations. Additionally, we may continue to experience fewer new orders and increased cancellations across all of our commercial airplane programs as a result of the COVID-19 pandemic and associated impacts on demand.

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, 2021 was primarily due to reclassifications to contractual backlog related to BDS and BGS contracts, partially offset by contract awards.

**Additional Considerations**

**Global Trade** We continually monitor the global trade environment in response to geopolitical economic developments, as well as changes in tariffs, trade agreements, or sanctions that may impact the Company.

The global economy continues to experience significant adverse impacts due to the COVID-19 pandemic, including a decline in overall trade in general and in aerospace in particular. There is a great deal of uncertainty regarding the duration, scale, and localization of these impacts to the global economy and governments are enacting a wide range of responses to mitigate the unfolding economic impacts. We are closely monitoring the current impact and potential future economic consequences of COVID-19 to the global economy, the aerospace sector, and our Company. These adverse economic impacts have resulted in fewer orders than previously anticipated for our commercial aircraft.

China is a significant market for commercial airplanes and represents a significant component of our commercial airplanes backlog. Since 2018, the U.S. and China imposed an escalating series of tariffs on each other’s imports. Certain aircraft parts and components that Boeing procures are subject to these tariffs. The U.S. and China entered into a Phase I agreement in January 2020. However, implementation of this agreement is incomplete and overall diplomatic relations between the U.S. and China have deteriorated. We continue monitoring developments for potential adverse impacts to the Company.

Beginning in June 2018, the U.S. Government has imposed 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. Implementation of the U.S./

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Mexico/Canada Free Trade Agreement (USMCA) will also result in lower tariffs. We continue to monitor the potential for any extra costs that may result from the remaining global tariffs.

The current status of U.S.-Russia relations is creating an adverse climate for our business. The U.S. Government continues to impose and/or consider imposing sanctions on certain businesses and individuals in Russia. We continue to monitor and evaluate additional sanctions and export restrictions that may be imposed by the U.S. Government and any responses from Russia that could directly affect our supply chain, business partners or customers. We also continue to support the 737 MAX return to service in Russia.

The U.S. and European Union (EU) have been engaged in two long-running disputes at the World Trade Organization (WTO) relating to large civil aircraft. As part of those disputes, in October 2019, the WTO authorized the U.S. to impose approximately $7.50 billion in annual tariffs on EU products in connection with the EU’s provision of eight instances of launch aid subsidies to Airbus. Following this authorization, the U.S. began to impose 15% tariffs on new Airbus airplanes imported into the U.S. as well as fuselages that Airbus manufactures in Europe and imports into the U.S. In October 2020, the WTO authorized the EU to impose approximately $3.99 billion in annual tariffs on U.S. products in connection with a tax incentive used by Boeing in Washington state that has since been repealed. Shortly thereafter, the EU began to impose 15% tariffs on Boeing airplanes imported into the EU. On June 15, 2021, the U.S. and EU announced that they had reached a cooperative framework to address the large civil aircraft disputes. As part of the framework, among other items, both sides announced an intent to continue to suspend tariffs related to the disputes for five years. The U.S. and U.K. announced a similar agreement on June 17, 2021.

**Segment Results of Operations and Financial Condition**

**Commercial Airplanes**

**Business Environment and Trends**

See Overview to Management’s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the impacts of COVID-19 on the airline industry environment.

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$14,743** | |  |  | | | $11,434 | |  |  | | | **$4,459** | |  |  | | | $3,596 | |  |
| Loss from operations | | | **($2,021)** | |  |  | | | ($6,199) | |  |  | | | **($693)** | |  |  | | | ($1,369) | |  |
| Operating margins | | | **(13.7)** | | **%** |  | | | (54.2) | | % |  | | | **(15.5)** | | **%** |  | | | (38.1) | | % |

**Revenues**

BCA revenues increased by $3,309 million for the nine months ended September 30, 2021 compared with the same period in 2020 primarily driven by higher 737 MAX deliveries due to recertification and return to service in many jurisdictions, partially offset by lower 787 deliveries. Revenue was also lower in the prior year period due to $370 million of 737 MAX customer considerations.

BCA revenues increased by $863 million for the three months ended September 30, 2021 compared with the same period in 2020 primarily driven by higher 737 MAX deliveries due to recertification and return to service in many jurisdictions, partially offset by lower 787 deliveries.

While we resumed deliveries of 737 MAX aircraft in December 2020, the 737 MAX grounding is still in effect in certain non-U.S. jurisdictions and 787 deliveries are currently paused. Revenues will continue to be significantly impacted until deliveries ramp up and the commercial airline industry recovers from the impacts of COVID-19.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **737** | |  | \* | | | **747** | |  |  | | | **767** | |  | \* | | | **777** | |  |  |  | | | **787** | |  |  | | | **Total** | | |
| Deliveries during the first nine months of 2021 | | | 179 | |  | (12) | | | 4 | |  |  | | | 24 | |  | (9) | | | 20 | |  |  |  | | | 14 | |  |  | | | 241 | |  |
| Deliveries during the first nine months of 2020 | | | 12 | |  | (10) | | | 2 | |  |  | | | 20 | |  | (8) | | | 15 | |  |  |  | | | 49 | |  |  | | | 98 | |  |
| Deliveries during the third quarter of 2021 | | | 66 | |  | (4) | | | 2 | |  |  | | | 11 | |  | (5) | | | 6 | |  |  |  | | | 0 | |  |  | | | 85 | |  |
| Deliveries during the third quarter of 2020 | | | 3 | |  | (3) | | | 1 | |  |  | | | 6 | |  | (2) | | | 5 | |  |  |  | | | 13 | |  |  | | | 28 | |  |
| Cumulative deliveries as of 9/30/2021 | | | 7,661 | |  |  | | | 1,564 | |  |  | | | 1,230 | |  |  | | | 1,673 | |  |  |  | | | 1,006 | |  |  | | |  | | |
| Cumulative deliveries as of 12/31/2020 | | | 7,482 | |  |  | | | 1,560 | |  |  | | | 1,206 | |  |  | | | 1,653 | |  |  |  | | | 992 | |  |  | | |  | | |

\* Intercompany deliveries identified by parentheses.

**Loss From Operations**

BCA loss from operations was $2,021 million for nine months ended September 30, 2021 compared with $6,199 million in the same period in 2020 reflecting higher 737 MAX deliveries, lower period expense, lower 737 MAX customer considerations and lower research and development spending, partially offset by lower 787 deliveries. Period expense for the nine months ended September 30, 2021 included $1,501 million of abnormal production costs related to 737 MAX and $183 million of abnormal production costs related to the 787 program. Period expense for the nine months ended September 30, 2020, included $2,099 million of abnormal production costs related to 737 MAX, $610 million of severance costs, $270 million of abnormal production costs from the temporary suspension of Puget Sound operations in response to COVID-19, and a $336 million charge related to 737NG frame fitting component repair costs.

BCA loss from operations was $693 million for three months ended September 30, 2021 compared with $1,369 million in the same period in 2020 reflecting higher 737 MAX deliveries, lower period expense, partially offset by favorable 737 MAX customer considerations in 2020 and lower 787 deliveries. Period expense for the three months ended September 30, 2021 included $418 million of abnormal production costs related to 737 MAX and $183 million of abnormal production costs related to the 787 program. Period expense for the three months ended September 30, 2020, included $590 million of abnormal production costs related to 737 MAX and $142 million of severance costs.

Lower commercial airplane deliveries and the COVID-19 pandemic will continue to have a significant adverse impact on future earnings and margins until deliveries ramp up and return to historical levels.

**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 Boeing Capital (BCC) orders. A number of our customers may have contractual remedies, including rights to reject individual airplane deliveries if the actual delivery date is significantly later than the contractual delivery date. 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 increased from $281,588 million as of December 31, 2020 to $289,644 million at September 30, 2021 reflecting new orders in excess of deliveries, changes in projected price escalation and changes in orders that in our assessment do not meet the accounting requirements of ASC 606 for inclusion in backlog, partially offset by aircraft order cancellations. Aircraft order cancellations during the nine months ended September 30, 2021 totaled $25,376 million and primarily relate to 737 MAX and 787 aircraft. ASC 606 adjustments for the nine months ended September 30, 2021 resulted in an increase to

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backlog of $3,846 million primarily due to 777X aircraft, partially offset by 737 MAX and 787 aircraft. The ASC 606 adjustments include aircraft orders where a customer controlled contingency now exists, as well as orders where we can no longer assert that the customer is committed to perform or that it is probable that the customer will pay the full amount of consideration when it is due. If 737 MAX aircraft remain grounded in certain jurisdictions for an extended period of time, 787 aircraft deliveries continue to be paused, and/or if entry into service of the 777X, 737 MAX 7 and/or 737 MAX 10 is further delayed, we may experience additional reductions to backlog and/or significant order cancellations. Additionally, we may continue to experience fewer new orders and increased cancellations across all of our commercial airplane programs as a result the COVID-19 pandemic and associated impacts on demand.

**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. Firm orders include military derivative aircraft that are not included in program accounting quantities. All revenues and costs associated with military derivative aircraft production are reported in the BDS segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Program** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |
| **As of 9/30/2021** | | | **737** | |  |  | | | **747** | |  |  | | | **767** | |  |  | | | **777** | |  |  | | | **777X** | | |  | | | **787** | |  | † | | |
| Program accounting quantities | | | **10,400** | |  |  | | | **1,574** | |  |  | | | **1,243** | |  |  | | | **1,740** | |  |  | | | **350** | |  |  | | | **1,500** | |  |  | | |
| Undelivered units under firm orders | | | **3,334** | |  |  | | | **9** | |  |  | | | **97** | |  |  | | | **57** | |  |  | | | **253** | |  |  | | | **413** | |  | (13) | | |
| Cumulative firm orders | | | **10,995** | |  |  | | | **1,573** | |  |  | | | **1,327** | |  |  | | | **1,730** | |  |  | | | **253** | |  |  | | | **1,419** | |  |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| As of 12/31/2020 | | | 737 | |  |  | | | 747 | |  |  | | | 767 | |  |  | | | 777 | |  |  | | | 777X | | |  | | | 787 | |  | † | | |
| Program accounting quantities | | | 10,000 | |  |  | | | 1,574 | |  |  | | | 1,207 | |  |  | | | 1,700 | |  |  | | | 350 | |  |  | | | 1,500 | |  |  | | |
| Undelivered units under firm orders | | | 3,282 | |  |  | | | 8 | |  |  | | | 75 | |  |  | | | 41 | |  |  | | | 191 | |  |  | | | 458 | |  | (22) | | |
| Cumulative firm orders | | | 10,764 | |  |  | | | 1,568 | |  |  | | | 1,281 | |  |  | | | 1,694 | |  |  | | | 191 | |  |  | | | 1,450 | |  |  | | |

† Aircraft ordered by BCC are identified in parentheses.

**Program Highlights**

**737 Program** The accounting quantity for the 737 program increased by 400 during the nine months ended September 30, 2021 due to the program's normal progress of obtaining additional orders and delivering airplanes. We continue to make progress on the certification of the 737 MAX 7 and 737 MAX 10. We currently anticipate the first delivery of 737 MAX 7 in 2022 and the 737 MAX 10 in 2023. See further discussion of the 737 MAX Grounding and COVID-19 Impacts in Note 9 to our Condensed Consolidated Financial Statements*.*

**747 Program** We are currently producing at a rate of 0.5 aircraft per month. We will complete production of the 747 in 2022. We believe that ending production of the 747 will not have a material impact on our financial position, results of operations or cash flows.

**767 Program** The accounting quantity for the 767 program increased by 36 and 12 units during the nine and three months ended September 30, 2021 due to the program's normal progress of obtaining additional orders and delivering airplanes. The 767 assembly line includes the commercial program and a derivative to support the tanker program. The commercial program has near break-even gross margins. We are currently producing at a rate of 3 aircraft per month.

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**777 and 777X Programs** The accounting quantity for the 777 program increased by 40 units during the three months ended September 30, 2021 due to the program's normal progress of obtaining additional orders and delivering airplanes. There were no changes to the accounting quantity for the 777X program during the nine months ended September 30, 2021. The production rate expectation for the combined 777/777X program remains at 2 per month in 2021.

In 2013, we launched the 777X-8 and 777X-9, which feature new composite wings, new engines and folding wing-tips. The first flight of the 777X was completed during the first quarter of 2020. We continue to anticipate that the first 777X delivery will occur in late 2023. We recorded a $6.5 billion reach-forward loss on the 777X program in the fourth quarter of 2020. We did not record an increase to the reach-forward loss in the first three quarters of 2021.

The 777X fourth quarter 2020 revised schedule and reach-forward loss reflected a number of factors, including an updated assessment of global certification requirements informed by continued discussions with regulators and a management decision in the fourth quarter of 2020 to make modifications to the aircraft’s design, an updated assessment of COVID-19 impacts on market demand, and discussions with our customers with respect to aircraft delivery timing. These factors resulted in adjustments to production rates and the program accounting quantity, increased change incorporation costs, and associated customer and supply chain impacts.

The timing of the certification will ultimately be determined by the regulators, and further determinations with respect to anticipated certification requirements could result in additional delays in entry into service and/or additional cost increases.

The level of profitability on the 777X program will be subject to a number of factors. These factors include continued market uncertainty, the impacts of COVID-19 on our production system as well as impacts on our supply chain and customers, customer negotiations, further production rate adjustments for the 777X or other commercial aircraft programs, contraction of the accounting quantity and potential risks associated with the testing program and the timing of aircraft certification. One or more of these factors could result in additional reach-forward losses on the 777X program in future periods.

**787 Program** During 2020, we experienced significant reductions in deliveries due to the impacts of COVID-19 on our customers as well as production issues and associated rework. At December 31, 2020, we had approximately 80 787 aircraft in inventory. Deliveries resumed in March 2021 and two aircraft were delivered in the first quarter of 2021. We delivered 12 aircraft in the second quarter prior to deliveries being paused in May 2021. Deliveries remained paused during the third quarter of 2021.

At September 30, 2021 we have approximately 105 aircraft in inventory. We have identified production quality issues, including in our supply chain, which have contributed to the pause in 787 deliveries. In July 2021, we announced that we were reprioritizing production resources to support inspections and rework. We continue to conduct inspections and rework and are engaging in detailed discussions with the FAA regarding required actions for resuming delivery of the 787. We are currently producing at a rate of 2 per month and now expect to continue to produce at this rate until deliveries resume. We have determined that in the current environment a production rate of 2 per month represents an abnormally low production rate, and we have also determined that rework costs are excessive and should also be accounted for as abnormal production costs that are being expensed as incurred. As a result of ongoing rework and lower production rates, we expect to incur approximately $1 billion of abnormal production costs on a cumulative basis. We expect the production rate to return to 5 per month over time after deliveries resume. When deliveries resume, we plan to prioritize delivering aircraft from inventory. We continue to work with customers and suppliers regarding timing of future deliveries and production rate changes. We are also continuing to implement changes in the production process designed to ensure that newly-built airplanes meet our specifications and do not require further inspections. The exact timing of deliveries and future production rates will depend upon ongoing inspections and rework, ongoing customer and supplier engagement, production stability and our activities with the FAA.

During the first quarter of 2021, we consolidated 787 production in South Carolina, in line with our previous assumptions, which did not have a significant financial impact on the program. The 787 program

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has near break-even gross margins. The production issues and associated rework, as well as the temporary rate reduction and delivery pause, are pressuring gross margins and, as discussed above, are expected to result in further abnormal costs in future quarters that will be expensed as incurred. China is a significant market for the 787 program, and if the program is unable to obtain orders from China in future quarters, we may be required to further adjust production rate assumptions in future periods. If we are required to further reduce the accounting quantity and/or production rates, experience further delivery delays, or experience other factors that result in lower margins, the program could record a reach-forward loss in future periods.

**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, such as the 787 production issues and associated rework. In addition, the introduction of new aircraft and derivatives, such as the 777X and 737 MAX derivatives, involves increased risks associated with meeting development, production and certification schedules. These challenges include increased global regulatory scrutiny of all development aircraft in the wake of the 737 MAX accidents. 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, the addition of regulatory requirements in connection with certification in one or more jurisdictions, flight test and certification schedules, costs, schedule and demand for new airplanes and derivatives and status of customer claims, supplier claims or 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 Omnibus appropriations acts for fiscal year 2021 (FY21), enacted in December 2020, provided FY21 appropriations for government departments and agencies, including $704 billion for the United States Department of Defense (U.S. DoD), $23 billion for the National Aeronautics and Space Administration (NASA) and $18 billion for the FAA. FY21 appropriations included funding for Boeing’s major programs, such as the F/A-18 Super Hornet, F-15EX, CH-47 Chinook, AH-64 Apache, V-22 Osprey, KC-46A Tanker, P-8 Poseidon and Space Launch System.

In May 2021, the U.S. government released the President’s budget request for fiscal year 2022 (FY22), which included $715 billion in funding for the U.S. DoD, $25 billion in funding for NASA and $19 billion for the FAA. While the President’s budget request for FY22 includes funding for a majority of Boeing’s programs, it did not include funding for F/A-18 Super Hornet, P-8 Poseidon and CH-47F Block II production aircraft. While there is some continued congressional support for F/A-18 and CH-47F Block II production aircraft for FY22, there is ongoing uncertainty with respect to these and other program-level appropriations for FY22 and future fiscal years. These programs also continue to pursue non-U.S. sales opportunities.

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The Continuing Resolution (CR), enacted by U.S. Congress on September 30, 2021, continues federal funding at FY21 appropriated levels through December 3, 2021. Congress and the President must enact either full-year FY22 appropriations bills or an additional CR to fund government departments and agencies beyond December 3, 2021 or a government shutdown could result, which may impact the Company’s operations.

Future budget cuts or investment priority changes, including changes associated with the authorizations and appropriations process, 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.

**Results of Operations**

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| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$20,678** | |  |  | | | $19,478 | |  |  | | | **$6,617** | |  |  | | | $6,848 | |  |
| Earnings from operations | | | **$1,799** | |  |  | | | $1,037 | |  |  | | | **$436** | |  |  | | | $628 | |  |
| Operating margins | | | **8.7** | | **%** |  | | | 5.3 | | % |  | | | **6.6** | | **%** |  | | | 9.2 | | % |

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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| F/A-18 Models | | | **15** | | |  | | | 14 | | |  | | | **4** | | |  | | | 5 | | |
| F-15 Models | | | **11** | | |  | | | 3 | | |  | | | **3** | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| CH-47 Chinook (New) | | | **12** | | |  | | | 19 | | |  | | | **6** | | |  | | | 4 | | |
| CH-47 Chinook (Renewed) | | | **5** | | |  | | | 3 | | |  | | | **1** | | |  | | | 2 | | |
| AH-64 Apache (New) | | | **19** | | |  | | | 18 | | |  | | | **4** | | |  | | | 7 | | |
| AH-64 Apache (Remanufactured) | | | **42** | | |  | | | 44 | | |  | | | **11** | | |  | | | 12 | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| P-8 Models | | | **11** | | |  | | | 9 | | |  | | | **5** | | |  | | | 3 | | |
| KC-46 Tanker | | | **7** | | |  | | | 10 | | |  | | | **3** | | |  | | | 4 | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Total | | | **122** | | |  | | | 120 | | |  | | | **37** | | |  | | | 37 | | |

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**Revenues**

BDS revenues for the nine months ended September 30, 2021 increased by $1,200 million compared with the same period in 2020, primarily due to higher revenue on the KC-46A Tanker program due to new orders for 27 aircraft received during the first quarter of 2021, and the absence of charges related to the KC-46A Tanker program in 2021, which reduced revenue in 2020. Cumulative contract catch-up adjustments for the nine months ended September 30, 2021 were $432 million less unfavorable than the comparable period in the prior year due to the absence of Tanker charges.

BDS revenues for the three months ended September 30, 2021 decreased by $231 million compared with the same period in 2020, primarily due higher net unfavorable cumulative contract adjustments of $34 million compared to the prior year period. This was largely to due changes on Commercial Crew during the quarter, discussed below. Net lower volume also contributed to the decrease.

**Earnings From Operations**

BDS earnings from operations for the nine months ended September 30, 2021 increased by $762 million largely due to the absence of charges related to the KC-46A Tanker program. The first quarter of 2020 included charges of $827 million and $168 million related to KC-46A Tanker and VC-25B. The first quarter of 2021 included an increase to the reach-forward loss on VC-25B of $318 million, which is largely due to COVID-19 impacts and performance issues at a key supplier. The third quarter of 2021 included an increase to the reach-forward loss on Commercial Crew of $185 million driven by the second uncrewed Orbital Flight Test now anticipated in 2022 and the latest assessment of remaining work. As a result, the net unfavorable cumulative contract catch-up adjustments for the nine months ended September 30, 2021 were $707 million lower than the comparable period in the prior year.

BDS earnings from operations for the three months ended September 30, 2021 decreased $192 million compared with the same period in 2020 largely due to higher unfavorable net contract cumulative catch-up adjustments which were $37 million more unfavorable than the prior year period largely due to the $185 million charge on Commercial Crew.

BDS earnings from operations includes equity earnings of $48 million and $11 million for the nine and three months ended September 30, 2021 compared with equity earnings of $45 million and $10 million for the same periods in 2020.

**Backlog**

BDS backlog decreased from $60,847 million as of December 31, 2020 to $58,435 million at September 30, 2021, primarily due to revenue recognized on contracts awarded in prior periods.

**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-price proposals for new programs. Examples of significant fixed-price development programs include Commercial Crew, KC-46A Tanker, MQ-25, T-7A Red Hawk, VC-25B, 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. 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

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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.

**Global Services**

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | | | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$12,037** | |  |  | | | $11,810 | |  |  | | | **$4,221** | |  |  | | | $3,694 | |  |
| Earnings from operations | | | **$1,616** | |  |  | | | $307 | |  |  | | | **$644** | |  |  | | | $271 | |  |
| Operating margins | | | **13.4** | | **%** |  | | | 2.6 | | % |  | | | **15.3** | | **%** |  | | | 7.3 | | % |

**Revenues**

BGS revenues for the nine months ended September 30, 2021 increased by $227 million compared with the same period in 2020 primarily due to higher commercial services and government services volume. While commercial services volume is beginning to recover, it remains below pre-pandemic levels. The net favorable impact of cumulative contract catch-up adjustments for the nine months ended September 30, 2021 were consistent with the comparable period in the prior year. We expect the impacts of the COVID-19 pandemic to continue to have an adverse impact on BGS commercial revenues in future quarters until the commercial airline industry environment recovers.

BGS revenues for the three months ended September 30, 2021 increased by $527 million compared with the same period in 2020 primarily due to higher commercial services volume. While commercial services volume is beginning to recover, it remains below pre-pandemic levels. The net favorable impact of cumulative contract catch-up adjustments for the three months ended September 30, 2021 were $54 million lower than the comparable period in the prior year. We expect the impacts of the COVID-19 pandemic to continue to have an adverse impact on BGS commercial revenues in future quarters until the commercial airline industry environment recovers.

**Earnings From Operations**

BGS earnings from operations for the nine months ended September 30, 2021 increased by $1,309 million compared with the same period in 2020, primarily due to charges incurred in the second quarter of 2020 due to the COVID-19 pandemic, as well as higher commercial services volume. Charges in the second quarter of 2020 included $370 million for higher expected credit losses primarily driven by customer liquidity issues, $237 million of inventory write-downs and $153 million of related impairments of distribution rights primarily driven by airlines' decisions to retire certain aircraft and $99 million of contract termination and facility impairments charges. Additionally, severance costs for the nine months ended September 30, 2020 were $130 million. The net favorable impact of cumulative contract catch-up adjustments for the nine months ended September 30, 2021 were $4 million lower than the comparable period in the prior year.

BGS earnings from operations for the three months ended September 30, 2021 increased by $373 million compared with the same period in 2020, primarily due to higher commercial services volume, as well as $66 million of severance charges incurred in 2020. The net favorable impact of cumulative contract catch-up adjustments for the three months ended September 30, 2021 were $67 million lower than the comparable period in the prior year.

**Backlog**

BGS backlog decreased from $20,632 million as of December 31, 2020 to $18,781 million at September 30, 2021, primarily due to revenue recognized on contracts awarded in prior years.

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**Boeing Capital**

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$209** | |  |  | | | $205 | |  |  | | | **$71** | |  |  | | | $71 | |  |
| Earnings from operations | | | **$99** | |  |  | | | $47 | |  |  | | | **$42** | |  |  | | | $30 | |  |
| Operating margins | | | **47.4** | | **%** |  | | | 22.9 | | % |  | | | **59.2** | | **%** |  | | | 42.3 | | % |

**Revenues**

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 months ended September 30, 2021 increased by $4 million compared with the same period in 2020 primarily due to higher gains on re-lease of assets. BCC’s revenues for the three months ended September 30, 2021 were consistent with the same period in 2020.

**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 operations for the nine months ended September 30, 2021 increased by $52 million compared with the same period in 2020 primarily due to lower asset impairment expense. Earnings from operations for the three months ended September 30, 2021 increased by $12 million compared with the same period in 2020 primarily due to lower provision for losses and lower depreciation expense.

**Financial Position**

The following table presents selected financial data for BCC:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **September 30 2021** | | |  | | | December 31 2020 | | |
| Customer financing and investment portfolio, net | | | **$1,782** | |  |  | | | $1,961 | |  |
| Other assets, primarily cash and short-term investments | | | **408** | |  |  | | | 402 | |  |
| Total assets | | | **$2,190** | |  |  | | | $2,363 | |  |
|  | | |  | | |  | | |  | | |
| Other liabilities, primarily deferred income taxes | | | **$351** | |  |  | | | $392 | |  |
| Debt, including intercompany loans | | | **1,525** | |  |  | | | 1,640 | |  |
| Equity | | | **314** | |  |  | | | 331 | |  |
| Total liabilities and equity | | | **$2,190** | |  |  | | | $2,363 | |  |
|  | | |  | | |  | | |  | | |
| Debt-to-equity ratio | | | **4.9-to-1** | | |  | | | 5-to-1 | | |

BCC’s customer financing and investment portfolio at September 30, 2021 decreased $179 million from December 31, 2020 primarily due to note payoffs and portfolio run-off.

BCC enters into certain intercompany 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.

There are no uncommitted aircraft subject to leases scheduled to be returned off lease in the next 12 months.

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**Liquidity and Capital Resources**

**Cash Flow Summary**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | | **Nine months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |
| Net loss | | | **($126)** | |  |  | | | ($3,502) | |  |
| Non-cash items | | | **2,942** | |  |  | | | 2,874 | |  |
| Changes in working capital | | | **(6,948)** | |  |  | | | (13,773) | |  |
| Net cash used by operating activities | | | **(4,132)** | |  |  | | | (14,401) | |  |
| Net cash provided/(used) by investing activities | | | **7,389** | |  |  | | | (16,823) | |  |
| Net cash (used)/provided by financing activities | | | **(1,238)** | |  |  | | | 32,274 | |  |
| Effect of exchange rate changes on cash and cash equivalents | | | **(34)** | |  |  | | | 26 | |  |
| Net increase in cash & cash equivalents, including restricted | | | **1,985** | |  |  | | | 1,076 | |  |
| Cash & cash equivalents, including restricted, at beginning of year | | | **7,835** | |  |  | | | 9,571 | |  |
| Cash & cash equivalents, including restricted, at end of period | | | **$9,820** | |  |  | | | $10,647 | |  |

**Operating Activities** Net cash used by operating activities was $4.1 billion during the nine months ended September 30, 2021, compared with $14.4 billion during the same period in 2020. The $10.3 billion year over year improvement is primarily driven by nearly break-even earnings in 2021 and improved working capital. The changes in working capital reflect the significant increase in commercial airplane inventory in 2020 driven by lower deliveries due to the COVID-19 pandemic and the 737 MAX grounding. In 2021, inventories stabilized as the decrease in 737 MAX inventory following the resumption of 737 MAX deliveries was offset by the continued buildup of 787 aircraft caused by production issues and 777X inventory growth Compensation payments to 737 MAX customers totaled $2.0 billion and $1.7 billion during the nine months ended September 30, 2021 and 2020. In the first quarter of 2021, we paid $0.7 billion consistent with the terms of the Deferred Prosecution Agreement between Boeing and the U.S. Department of Justice. Additionally, in the third quarter of 2021, we received income tax refunds of $1.3 billion. Cash provided by Advances and progress billings was $0.8 billion in 2021, as compared with $0.4 billion in 2020. The reduction in 787 deliveries and the residual impacts of the 737 MAX grounding are expected to continue to have a significant negative impact on our operating cash flows during 2021.

Payables to suppliers who elected to participate in supply chain financing programs decreased by $1.0 billion during the nine months ended September 30, 2021 and 2020. The decrease for both periods is primarily due to reductions in commercial purchases from suppliers and timing of payments. Supply chain financing is not material to our overall liquidity.

**Investing Activities** Cash provided by investing activities was $7.4 billion during the nine months ended September 30, 2021, compared with cash used of $16.8 billion during the same period in 2020, due to net proceeds from investments of $7.8 billion in 2021 compared to net contributions to investments of $16.1 billion in 2020. In the nine months ended September 30, 2021 and 2020, capital expenditures totaled $0.8 billion and $1.0 billion. We expect capital expenditures in 2021 to be lower than in 2020.

**Financing Activities** Cash used by financing activities was $1.2 billion during the nine months ended September 30, 2021 compared with cash provided of $32.3 billion during the same period in 2020. During the nine months ended September 30, 2021, net repayments were $1.2 billion compared with net borrowings of $33.6 billion in the same period in 2020. The absence of dividends in 2021 reflects the Company’s decision in March 2020 to suspend the declaration or payment of dividends until further notice. For further discussion see Liquidity Matters in Note 1 to our Condensed Consolidated Financial Statements.

As of September 30, 2021 the total debt balance was $62.4 billion, down from $63.6 billion at December 31, 2020. At September 30, 2021, $5.4 billion of debt was classified as short-term. Debt,

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including intercompany loans, attributable to BCC totaled $1.5 billion, $0.3 billion of which was classified as short-term.

**Capital Resources** The impacts of the COVID-19 pandemic, 737 MAX grounding, and reduction in 787 deliveries are having a significant negative impact on our liquidity and ongoing operations and creating significant uncertainty. We have and are continuing to take significant actions to manage and preserve our liquidity. For further discussion see Liquidity Matters in Note 1 to our Condensed Consolidated Financial Statements.

At September 30, 2021, we had $9.8 billion of cash and $10.2 billion of short term investments. At September 30, 2021, we had $14.8 billion of unused borrowing capacity on revolving credit line agreements, of which $3.1 billion was set to expire in October 2021, $3.2 billion expires in October 2022, $5.3 billion expires in March 2023, and $3.2 billion expires in October 2024. In October 2021, we renewed the 364-day facility for $3.1 billion, which now expires in October 2022. This 364-day facility has a one-year term out option that allows us to extend the maturity of any borrowings one additional year. We anticipate that these credit lines will remain undrawn and primarily serve as back-up liquidity to support our general corporate borrowing needs.

Any future borrowings may affect our credit ratings and are subject to various debt covenants. At September 30, 2021, 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.

Customer Financing commitments totaled $13.3 billion and $11.5 billion at September 30, 2021 and December 31, 2020. The increase relates to new financing commitments. 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.

**Off-Balance Sheet Arrangements**

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 10 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 17 to our Condensed Consolidated Financial Statements.

**Environmental Remediation** We are involved with various environmental remediation activities and have recorded a liability of $629 million at September 30, 2021. For additional information, see Note 9 to our Condensed Consolidated Financial Statements.

**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

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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, 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 Financial Accounting Standards (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 adjustments recognized in Earnings/(loss) from operations were benefits of $576 million and $192 million for the nine and three months ended September 30, 2021, compared with benefits of $773 million and $260 million for the nine and three months ended September 30, 2020. The lower benefits in 2021 were primarily due to reductions in allocated pension cost year over year. The non-operating pension expenses included in Other income, net were benefits of $381 million and $29 million for the nine and three months ended September 30, 2021, compared with benefits of $255 million and $84 million for the nine and three months ended September 30, 2020. The higher benefits for the nine months ended September 30, 2021 were primarily due to lower interest cost and higher expected return on plan assets, partially offset by higher settlement charges and higher amortization of actuarial losses. The lower benefits for the three months ended September 30, 2021 were primarily due to higher settlement charges and higher amortization of actuarial losses, partially offset by lower interest cost and higher expected return on plan assets.

For further discussion of pension and other postretirement costs see the Management’s Discussion and Analysis on page 44 of this Form 10-Q and on page 57 of our 2020 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 costs primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | | | **Nine months ended September 30** | | | | | | | | |  | | | **Three months ended September 30** | | | | | | | | |
|  | | | **2021** | | |  | | | 2020 | | |  | | | **2021** | | |  | | | 2020 | | |
| Revenues | | | **$47,493** | |  |  | | | $42,854 | |  |  | | | **$15,278** | |  |  | | | $14,139 | |  |
| Earnings/(loss) from operations, as reported | | | **$1,269** | |  |  | | | ($4,718) | |  |  | | | **$329** | |  |  | | | ($401) | |  |
| Operating margins | | | **2.7** | | **%** |  | | | (11.0) | | % |  | | | **2.2** | | **%** |  | | | (2.8) | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Pension FAS/CAS service cost adjustment (1) | | | **($576)** | |  |  | | | ($773) | |  |  | | | **($192)** | |  |  | | | ($260) | |  |
| Postretirement FAS/CAS service cost adjustment (1) | | | **(232)** | |  |  | | | (282) | |  |  | | | **(78)** | |  |  | | | (93) | |  |
| FAS/CAS service cost adjustment (1) | | | **($808)** | |  |  | | | ($1,055) | |  |  | | | **($270)** | |  |  | | | ($353) | |  |
| Core operating earnings/(loss) (non-GAAP) | | | **$461** | |  |  | | | ($5,773) | |  |  | | | **$59** | |  |  | | | ($754) | |  |
| Core operating margins (non-GAAP) | | | **1.0** | | **%** |  | | | (13.5) | | % |  | | | **0.4** | | **%** |  | | | (5.3) | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Diluted loss per share, as reported | | | **($0.10)** | |  |  | | | ($6.10) | |  |  | | | **($0.19)** | |  |  | | | ($0.79) | |  |
| Pension FAS/CAS service cost adjustment (1) | | | **(0.98)** | |  |  | | | (1.36) | |  |  | | | **(0.33)** | |  |  | | | (0.46) | |  |
| Postretirement FAS/CAS service cost adjustment (1) | | | **(0.40)** | |  |  | | | (0.50) | |  |  | | | **(0.13)** | |  |  | | | (0.16) | |  |
| Non-operating pension expense (2) | | | **(0.64)** | |  |  | | | (0.46) | |  |  | | | **(0.05)** | |  |  | | | (0.16) | |  |
| Non-operating postretirement expense (2) | | | **(0.03)** | |  |  | | | 0.07 | |  |  | | | **(0.01)** | |  |  | | | 0.02 | |  |
| Provision for deferred income taxes on adjustments (3) | | | **0.43** | |  |  | | | 0.47 | |  |  | | | **0.11** | |  |  | | | 0.16 | |  |
| Core loss per share (non-GAAP) | | | **($1.72)** | |  |  | | | ($7.88) | |  |  | | | **($0.60)** | |  |  | | | ($1.39) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Weighted average diluted shares (in millions) | | | **587.3** | |  |  | | | 566.3 | |  |  | | | **589.0** | |  |  | | | 566.6 | |  |

(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/(loss) (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 loss per share (non-GAAP).

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

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

We have financial instruments that are subject to interest rate risk, principally fixed- and floating-rate debt obligations, and customer financing assets and liabilities. The investors in our fixed-rate debt obligations do not generally have the right to demand we pay off these obligations prior to maturity. Therefore, exposure to interest rate risk is not believed to be material for our fixed-rate debt. As of September 30, 2021, we have $4 billion remaining on our two-year delayed draw floating-rate term loan credit agreement. While our two-year delayed draw term loan matures in February 2022, we are planning to repay the remaining $4 billion in the fourth quarter of 2021. An increase or decrease of 100 basis points in interest rates on this floating-rate debt would increase or decrease our pre-tax loss by approximately $10 million in 2021. Historically, we have not experienced material gains or losses on our customer financing assets and liabilities due to interest rate changes.

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There have been no significant changes to our foreign currency exchange rate or commodity price risk since December 31, 2020.

**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, 2021 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 2021 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**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 17 to our Condensed Consolidated Financial Statements, which is hereby incorporated by reference.

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2020.

**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, 2021 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | (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) | | |
| 7/1/2021 thru 7/31/2021 | | | 25,979 | |  |  | | | $235.59 | |  |  | | |  | | |  | | |  | | |
| 8/1/2021 thru 8/31/2021 | | | 3,421 | |  |  | | | 229.10 | |  |  | | |  | | |  | | |  | | |
| 9/1/2021 thru 9/30/2021 | | | 645 | |  |  | | | 226.24 | |  |  | | |  | | |  | | |  | | |
| Total | | | 30,045 | |  |  | | | $234.65 | |  |  | | |  | | |  | | |  | | |

(1)A total of 30,045 shares were 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 a repurchase program or in swap transactions.

(2)On March 21, 2020, the Board of Directors terminated its prior authorization to repurchase shares of the Company's outstanding common stock.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| 3.2 | | | [By-Laws of The Boeing Company, as amended and restated effective August 31, 2021 (Exhibit 3.2 to the Company's Current Report on Form 8-K dated September 1, 2021)](http://www.sec.gov/Archives/edgar/data/12927/000001292721000078/a202108aug318kex32.htm) | | |
|  | | |  | | |
| 10.1 | | | [364-Day Credit Agreement, dated as of October 25, 2021, among The Boeing Company, for itself and on behalf of its Subsidiaries, as a Borrower, the Lenders party hereto, Citibank, N.A., as administrative agent, JPMorgan Chase Bank, N.A. as syndication agent and Citibank, N.A. and JPMorgan Chase Bank N.A., as Joint Lead Arrangers and Joint Book Managers (Exhibit 10.1 to the Company’s Current Report on Form 8-K dated October 25, 2021)](http://www.sec.gov/Archives/edgar/data/12927/000001292721000090/a202110oct258kex101.htm) | | |
|  | | |  | | |
| 15 | | | [Letter from Independent Registered Public Accounting Firm regarding unaudited interim financial information](https://www.sec.gov/Archives/edgar/data/0000012927/000001292721000094/a202109sep3010qex15.htm) | | |
|  | | |  | | |
| 31.1 | | | [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](https://www.sec.gov/Archives/edgar/data/0000012927/000001292721000094/a202109sep3010qex311.htm) | | |
|  | | |  | | |
| 31.2 | | | [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](https://www.sec.gov/Archives/edgar/data/0000012927/000001292721000094/a202109sep3010qex312.htm) | | |
|  | | |  | | |
| 32.1 | | | [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](https://www.sec.gov/Archives/edgar/data/0000012927/000001292721000094/a202109sep3010qex321.htm) | | |
|  | | |  | | |
| 32.2 | | | [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](https://www.sec.gov/Archives/edgar/data/0000012927/000001292721000094/a202109sep3010qex322.htm) | | |
|  | | |  | | |
| 101.INS | | | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | |
|  | | |  | | |
| 101.SCH | | | Inline XBRL Taxonomy Extension Schema Document | | |
|  | | |  | | |
| 101.CAL | | | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | |
|  | | |  | | |
| 101.DEF | | | Inline XBRL Taxonomy Extension Definition Linkbase Document | | |
|  | | |  | | |
| 101.LAB | | | Inline XBRL Taxonomy Extension Label Linkbase Document | | |
|  | | |  | | |
| 101.PRE | | | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | |
|  | | |  | | |
| 104 | | | The cover page for the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, has been formatted in Inline XBRL. | | |

\* Management contract or compensatory plan

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**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.

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|  | | |  | | | THE BOEING COMPANY | | |
|  | | |  | | | (Registrant) | | |
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| October 27, 2021 | | |  | | | /s/ Carol J. Hibbard | | |
| (Date) | | |  | | | Carol J. Hibbard | | |
|  | | |  | | | Senior Vice President and Controller | | |

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Settings

窗体顶端

Hover over Fact for quick information. IMG_289

Auto Scrolling Position IMG_290 Selecting a fact from the Sections Menu or the Fact Menu will automatically scroll that element to the (Top, or Middle) of the viewer window. This setting will have no use on IE 10, or Safari.

Tagged Data

IMG_291

Save

Reset

Search Results

IMG_292

Save

Reset

Selected Fact

IMG_293

Save

Reset

Tag Shading (hover)

IMG_294

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Reset

窗体底端

Copy and Paste Below Content. IMG_295

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Nested Facts /

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