

BOEING CO
Form 10-K
February 09, 2012
Table of Contents

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2011**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-442

THE BOEING COMPANY

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of

91-0425694
(I.R.S. Employer Identification No.)

incorporation or organization

100 N. Riverside Plaza, Chicago, IL
(Address of principal executive offices)

60606-1596
(Zip Code)

Registrant's telephone number, including area code (312) 544-2000

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

Common Stock, \$5 par value
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

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

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

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

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 x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large accelerated filer x

Accelerated filer "

Non-accelerated filer " (Do not check if a smaller reporting company)

Smaller reporting company "

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

As of June 30, 2011, there were 740,571,310 common shares outstanding held by nonaffiliates of the registrant, and the aggregate market value of the common shares (based upon the closing price of these shares on the New York Stock Exchange) was approximately \$54.8 billion.

The number of shares of the registrant's common stock outstanding as of February 1, 2012 was 745,720,763.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2011.

Table of Contents**THE BOEING COMPANY****Index to the Form 10-K****For the Fiscal Year Ended December 31, 2011**

	<i>Page</i>
PART I	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	6
Item 1B. <u>Unresolved Staff Comments</u>	15
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	16
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6. <u>Selected Financial Data</u>	18
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
Item 8. <u>Financial Statements and Supplementary Data</u>	48
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	111
Item 9A. <u>Controls and Procedures</u>	111
Item 9B. <u>Other Information</u>	111
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	112
Item 11. <u>Executive Compensation</u>	114
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	115
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	115
Item 14. <u>Principal Accounting Fees and Services</u>	115
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	116
<u>Signatures</u>	120

Table of Contents

Item 1. Business

The Boeing Company, together with its subsidiaries (herein referred to as Boeing, the Company, we, us, our), is one of the world's major aerospace firms.

We are organized based on the products and services we offer. We operate in five principal segments:

- Commercial Airplanes;
- Our Boeing Defense, Space & Security (BDS) business comprises three segments:
 - Boeing Military Aircraft (BMA),
 - Network & Space Systems (N&SS) and
 - Global Services & Support (GS&S); and
- Boeing Capital Corporation (BCC).

Our Other segment includes the unallocated activities of Engineering, Operations & Technology (EO&T) and Shared Services Group (SSG), as well as intercompany guarantees provided to BCC. EO&T provides Boeing with technical and functional capabilities, including information technology, research and development, test and evaluation, technology strategy development, environmental remediation management and intellectual property management.

Commercial Airplanes Segment

The Commercial Airplanes segment develops, produces and markets commercial jet aircraft and provides related support services, principally to the commercial airline industry worldwide. We are a leading producer of commercial aircraft and offer a family of commercial jetliners designed to meet a broad spectrum of passenger and cargo requirements of domestic and non-U.S. airlines. This family of commercial jet aircraft in production includes the 737 narrow-body model and the 747, 767, 777 and 787 wide-body models. Development continues on the 787-9 derivative. In the third quarter of 2011 we launched a variant of the 737 that will feature new more fuel efficient engines—the 737 MAX. The Commercial Airplanes segment also offers aviation services support, aircraft modifications, spares, training, maintenance documents and technical advice to commercial and government customers worldwide.

Boeing Defense, Space & Security

Our BDS operations principally involve research, development, production, modification and support of the following products and related systems: global strike systems, including fighters, bombers, combat rotorcraft systems, weapons and unmanned systems; global mobility systems, including transport and tanker aircraft, rotorcraft transport and tilt-rotor systems; airborne surveillance and reconnaissance aircraft, including command and control, battle management and airborne anti-submarine aircraft; network and tactical systems, including electronics and mission systems; information solutions including cybersecurity, secure mobile applications, analytics and secure infrastructure; strategic missile and defense systems; space and intelligence systems, including satellites and commercial satellite launching vehicles; and space exploration. BDS is committed to providing affordable, best-of-industry solutions and brings value to customers through its ability to solve the most complex problems utilizing expertise in large-scale systems integration, knowledge of legacy platforms and development of common network-enabled solutions across all customers' domains. BDS' primary customer is the United States Department of Defense (U.S. DoD) with 76% of BDS 2011 revenues being derived from this customer. Other significant revenues were derived from the National Aeronautics and Space Administration (NASA) and international defense markets, civil markets and commercial satellite markets. BDS consists of three capabilities-driven businesses: BMA, N&SS and

Table of Contents

GS&S. Additionally, the Phantom Works group is an integrated team that works with the three businesses via product development, rapid prototyping and customer engagement through experimentation and enterprise technology investment strategies.

Boeing Military Aircraft Segment

This segment is engaged in the research, development, production and modification of manned and unmanned military weapons systems for the global strike, mobility and surveillance and engagement markets as well as related services. Included in this segment are the A160 Hummingbird, AH-64 Apache, Airborne Early Warning and Control (AEW&C), CH-47 Chinook, C-17 Globemaster, EA-18G Growler Airborne Attack Electronic Aircraft, F/A-18E/F Super Hornet, F-15 Strike Eagle, F-22 Raptor, Harpoon, USAF KC-46A Tanker, KC-767 International Tanker, Joint Direct Attack Munition, P-8A Poseidon, India P-8I, ScanEagle, Small Diameter Bomb, T-45TS Goshawk and V-22 Osprey.

Network & Space Systems Segment

This segment is engaged in the research, development, production and modification of products and services to assist our customers in transforming their operations through the following capabilities: network integration, information and cyber applications, command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) space exploration and satellites. Included in this segment are the Airborne Laser, Brigade Combat Team Modernization (BCTM), Combat Survivor Evader Locator (CSEL), Crew Space Transportation-100, cyber and security programs, directed energy, Enhanced Medium Altitude Reconnaissance and Surveillance System (EMARSS), Family of Advanced Beyond Line-of-Sight Terminals (FAB-T), Future Rapid Effects System, Global Positioning System, Ground-based Midcourse Defense (GMD), High Energy Laser Technology Demonstrator, International Space Station, Joint Tactical Radio System (JTRS), satellite systems, SBInet, Space Launch System, space payloads, Space Shuttle and Wideband Global SATCOM.

Global Services & Support Segment

This segment is engaged in the operations, maintenance, training, upgrades and logistics support functions for military platforms and operations. Included in this segment are the following activities: Integrated Logistics on platforms including AEW&C, AH-64, AV-8B, C-17, CH-47, F-15, F/A-18, F-22, GMD Operations and Support (O&S), KC-767 International Tanker, P-8A, T-45 and V-22; Maintenance, Modifications and Upgrades on platforms including A-10, B-1, B-2, B-52, C-32, C-40, C-130, E-4B, E-6, KC-10, KC-135, QF-16, T-38 and VC-25; Training Systems and Services on platforms including AH-64, C-17, F-15, F-16, F/A-18, P-8A and T-45; and Defense and Government Services including the Infrastructure and Range Services, Log C2 and LogNEC programs.

Boeing Capital Corporation Segment

BCC facilitates, arranges, structures and provides selective financing solutions for our Commercial Airplanes customers. In the space and defense markets, BCC primarily arranges and structures financing solutions for our BDS government customers. BCC's portfolio consists of equipment under operating leases, finance leases, notes and other receivables, assets held for sale or re-lease and investments.

Financial and Other Business Information

See page 54 for the Summary of Business Segment Data and Note 22 to our Consolidated Financial Statements for financial information, including revenues and earnings from operations, for each of our business segments.

Table of Contents

Intellectual Property

We own numerous patents and have licenses for the use of patents owned by others, which relate to our products and their manufacture. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. For example, the U.S. government has licenses in our patents that are developed in performance of government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes. Unpatented research, development and engineering skills, as well as certain trademarks, trade secrets, and other intellectual property rights, also make an important contribution to our business. While our intellectual property rights in the aggregate are important to the operation of each of our businesses, we do not believe that our business would be materially affected by the expiration of any particular intellectual property right or termination of any particular intellectual property patent license agreement.

Non-U.S. Revenues

See Note 22 to our Consolidated Financial Statements for information regarding non-U.S. revenues.

Research and Development

Research and development expenditures involve experimentation, design, development and related test activities for defense systems, new and derivative jet aircraft including both commercial and military, advanced space and other company-sponsored product development. These are expensed as incurred including amounts allocable as reimbursable overhead costs on U.S. government contracts.

Our total research and development expense amounted to \$3.9 billion, \$4.1 billion and \$6.5 billion in 2011, 2010 and 2009, respectively. Research and development expense in 2009 included \$2.7 billion of production costs related to the first three flight test 787 aircraft that cannot be sold due to the inordinate amount of rework and unique and extensive modifications that would be made to the aircraft.

Research and development costs also include bid and proposal efforts related to government products and services, as well as costs incurred in excess of amounts estimated to be recoverable under cost-sharing research and development agreements. Bid and proposal costs were \$332 million, \$355 million and \$343 million in 2011, 2010 and 2009, respectively.

Research and development highlights for each of the major business segments are discussed in more detail in Segment Results of Operations and Financial Condition on pages 23 - 38.

Employees

Total workforce level at December 31, 2011 was approximately 171,700.

Table of Contents

As of December 31, 2011, our principal collective bargaining agreements were with the following unions:

Union	Percent of our Employees Represented	Status of the Agreements with the Union
The International Association of Machinists and Aerospace Workers (IAM)	20%	We have two major agreements; one expiring in January of 2015 and one in September of 2016.
The Society of Professional Engineering Employees in Aerospace (SPEEA)	13%	We have two major agreements; one expiring in October of 2012 and one in December of 2013.
The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)	2%	We have two major agreements; one expiring in October of 2014 and one in February of 2015.

Competition

The commercial jet aircraft market and the airline industry remain extremely competitive. We face aggressive international competitors who are intent on increasing their market share, such as Airbus, Embraer and Bombardier, and other entrants from Russia, China and Japan. We are focused on improving our processes and continuing cost reduction efforts. We intend to continue to compete with other airplane manufacturers by providing customers with greater value products, services, and support. We continue to leverage our extensive customer support services network which includes aviation support, spares, training, maintenance documents and technical advice for airlines throughout the world to provide a higher level of customer satisfaction and productivity.

BDS faces strong competition in all market segments, primarily from Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company and General Dynamics Corporation. Non-U.S. companies such as BAE Systems and European Aeronautic Defence and Space Company (EADS), the parent of Airbus, continue to build a strategic presence in the U.S. market by strengthening their North American operations and partnering with U.S. defense companies. In addition, certain of our competitors have occasionally formed teams with other competitors to address specific customer requirements. BDS expects the trend of strong competition to continue into 2012 with many international firms attempting to increase their U.S. presence.

Regulatory Matters

Our businesses are heavily regulated in most of our markets. We deal with numerous U.S. government agencies and entities, including but not limited to all of the branches of the U.S. military, NASA, the Federal Aviation Administration (FAA) and the Department of Homeland Security. Similar government authorities exist in our international markets.

Government Contracts. The U.S. government, and other governments, may terminate any of our government contracts at their convenience, as well as for default, based on our failure to meet specified performance measurements. If any of our U.S. government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and can require us

Table of Contents

to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default.

Commercial Aircraft. In the United States, our commercial aircraft products are required to comply with FAA regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety. Internationally, similar requirements exist for airworthiness, installation and operational approvals. These requirements are generally administered by the national aviation authorities of each country and, in the case of Europe, coordinated by the European Joint Aviation Authorities.

Environmental. We are subject to various federal, state, local and non-U.S. laws and regulations relating to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We continually assess our compliance status and management of environmental matters to ensure our operations are in substantial compliance with all applicable environmental laws and regulations. Operating and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are allowable costs under our contracts with the U.S. government. It is reasonably possible that continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if more stringent clean-up standards are imposed, additional contamination is discovered and/or clean-up costs are higher than estimated.

A Potentially Responsible Party (PRP) has joint and several liability under existing U.S. environmental laws. Where we have been designated a PRP by the Environmental Protection Agency or a state environmental agency, we are potentially liable to the government or third parties for the full cost of remediating contamination at our facilities or former facilities or at third-party sites. If we were required to fully fund the remediation of a site, the statutory framework would allow us to pursue rights to contribution from other PRPs. For additional information relating to environmental contingencies, see Note 12 to our Consolidated Financial Statements.

International. Our international sales are subject to U.S. and non-U.S. governmental regulations and procurement policies and practices, including regulations relating to import-export control, investment, exchange controls and repatriation of earnings. International sales are also subject to varying currency, political and economic risks.

Raw Materials, Parts, and Subassemblies

We are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our aerospace products are aluminum (sheet, plate, forgings and extrusions), titanium (sheet, plate, forgings and extrusions) and composites (including carbon and boron). Although alternative sources generally exist for these raw materials, qualification of the sources could take one year or more. Many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of companies.

Suppliers

We are dependent upon the ability of a large number of suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at our anticipated costs. While we maintain an extensive qualification and performance surveillance system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could

Table of Contents

adversely affect production schedules and program/contract profitability, thereby jeopardizing our ability to fulfill commitments to our customers. We are also dependent on the availability of energy sources, such as electricity, at affordable prices.

Seasonality

No material portion of our business is considered to be seasonal.

Executive Officers of the Registrant

See Item 10. Directors, Executive Officers and Corporate Governance in Part III.

Other Information

Boeing was originally incorporated in the State of Washington in 1916 and reincorporated in Delaware in 1934. Our principal executive offices are located at 100 N. Riverside Plaza, Chicago, Illinois 60606 and our telephone number is (312) 544-2000.

General information about us can be found at www.boeing.com. The information contained on or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the Securities and Exchange Commission (SEC). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our web site as soon as reasonably practicable after we file them with, or furnish them to, the SEC. These reports may also be obtained at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Boeing.

Forward-Looking Statements

This report, as well as our Annual Report to Shareholders, quarterly reports, and other filings we make with the SEC, press releases and other written and oral communications, 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 identify these forward-looking statements. Examples of forward-looking statements include statements related 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 our current expectations and assumptions, which 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, including those set forth in the Risk Factors section below could cause actual results to differ materially and adversely from these forward-looking statements. Any forward-looking statement 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.

Item 1A. Risk Factors

An investment in our common stock or debt securities involves risks and uncertainties and our actual results and future trends may differ materially from our past or projected future performance. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this report.

Table of Contents

Our Commercial Airplanes business depends heavily on commercial airlines, and is subject to unique risks.

Market conditions have a significant impact on demand for our commercial aircraft. The commercial aircraft market is predominantly driven by long-term trends in airline passenger and cargo traffic. The principal factors underlying long-term traffic growth are sustained economic growth and political stability both in developed and emerging markets. Demand for our commercial aircraft is further influenced by airline profitability, availability of aircraft financing (including the industry's ability to withstand the European sovereign debt crisis and other market developments), world trade policies, government-to-government relations, technological changes, price and other competitive factors, terrorism, epidemics and environmental regulations. Traditionally, the airline industry has been cyclical and very competitive and has experienced significant profit swings and constant challenges to be more cost competitive. Significant deterioration of the global economic environment or the financial health of the airline industry generally or of one or more of our major customers could result in fewer new orders for aircraft or could cause customers to seek to postpone or cancel contractual orders and/or payments to us, which could result in lower revenues, profitability and cash flows and a reduction in our contractual backlog. In addition, because our commercial aircraft backlog consists of aircraft scheduled for delivery over a period of several years, any of these industry or customer impacts could unexpectedly affect deliveries over a long period.

We enter into firm fixed-price aircraft sales contracts with indexed price escalation clauses which could subject us to losses if we have cost overruns or if increases in our costs exceed the applicable escalation rate. Commercial aircraft sales contracts are often entered into years before the aircraft are delivered. In order to account for economic fluctuations between the contract date and delivery date, aircraft pricing generally consists of a fixed amount as modified by an indexed price escalation formula. Our revenue estimates are based on current expectations with respect to these escalation formulas, but the actual escalation amounts are outside of our control. Escalation factors can fluctuate significantly from period to period. Changes in escalation amounts can significantly impact revenues and operating margins in our Commercial Airplanes business.

We derive a significant portion of our revenues from a limited number of commercial airlines. We can make no assurance that any customer will exercise purchase options, fulfill existing purchase commitments or purchase additional products or services from us after our contract with the customer ends. In addition, fleet decisions, airline consolidations or financial challenges involving any of our major commercial airline customers could significantly reduce our revenues and limit our opportunity to generate profits from those customers.

Our Commercial Airplanes business depends on our ability to develop new aircraft, achieve planned production rate increases across multiple programs and maintain a healthy production system.

The design and production of airplanes is complex and requires exotic materials, highly skilled employees and extensive coordination and integration with suppliers. As a result, our ability to deliver aircraft on time, satisfy contractual performance requirements and achieve or maintain, as applicable, program profitability is subject to significant risks. In addition, we are continuing to increase production rates for the 737, 747, 777 and 787 programs. These risks are increased by our simultaneous development of derivative aircraft, such as the 787-9 and the 737 MAX, the completion of design changes identified during flight testing into already-manufactured 747 and 787 aircraft, and our recent incorporation of a second 787 final assembly line into our production system.

If assembly line ramp-up efforts at any of our commercial aircraft assembly facilities are delayed or if our suppliers cannot timely deliver components to us at the rates necessary to achieve our planned rate increases, we may be unable to meet delivery schedules and the financial performance of one or

Table of Contents

more of our programs may suffer. Operational issues, including delays or defects in supplier components, the inability to efficiently and cost-effectively incorporate design changes into 787 and 747 production aircraft, and aircraft performance issues, could impact our ability to achieve our targeted production rates, and may result in aircraft delivery delays, higher production costs and/or lower program revenues. If we fail to deliver aircraft to our customers on time or meet contractual performance requirements, we could experience order cancellations or other significant financial exposures, or a reduction of the profitability of our Commercial Airplanes business.

Our BDS business could be adversely affected by changing acquisition priorities of the U.S. government, particularly the Department of Defense, including an increased emphasis on affordability.

The U.S. government participates in an increasingly wide variety of operations, including homeland defense, natural disasters, stabilization efforts, counterinsurgency and counterterrorism, that employ our products and services. The U.S. government, primarily operating through the U.S. DoD, continues to adjust its funding priorities in response to this changing threat environment. In addition, defense funding currently faces pressures due to the overall economic environment and competing budget priorities. Due to these pressures, the total U.S. DoD budget could decline. Any reduction in levels of U.S. DoD spending or cancellations or delays impacting existing contracts could have a significant impact on the operating results of our BDS business. We also expect that the U.S. DoD will continue to emphasize cost-cutting and other efficiency initiatives in its procurement processes. These initiatives will require us and our competitors to focus increasingly on long-term cost competitiveness and affordability when responding to proposals and/or pursuing development programs. If the priorities of the U.S. government change and/or we are unable to meet affordability targets, our BDS revenues and profitability could be negatively impacted.

We depend heavily on U.S. government contracts, which are subject to unique risks.

In 2011, 38% of our revenues were derived from U.S. government contracts. In addition to normal business risks, our contracts with the U.S. government are subject to unique risks, some of which are beyond our control.

The funding of U.S. government programs is subject to congressional appropriations. Many of the U.S. government programs in which we participate may last several years; however, initially these programs are normally funded yearly, with additional funds committed in later years as Congress makes additional appropriations. As a result, long-term government contracts and related orders are subject to modification, curtailment or termination, if appropriations for subsequent performance periods are not made, either due to changes in U.S. national security strategy and priorities or fiscal constraints. For example, the U.S. Army notified us of the termination for convenience of the BCTM System Development and Demonstration contract relating to Manned Ground Vehicles and associated systems and equipment. Similar further budgetary pressures could affect the funding for one or more of our existing programs. The termination or reduction of funding for U.S. government programs could result in a material adverse effect on our earnings, cash flow and financial position.

The U.S. government may modify, curtail or terminate our contracts. The U.S. government may modify, curtail or terminate its contracts and subcontracts with us, without prior notice and at its convenience upon payment for work done and commitments made at the time of termination. In addition, if the U.S. government terminates a contract as a result of a default by us, we could be liable for additional costs, including reimbursement or damages. Modification, curtailment or termination of one or more of our major programs or contracts could have a material adverse effect on our results of operations and financial condition.

Table of Contents

Our contract costs are subject to audits by U.S. government agencies. U.S. government representatives may audit the costs we incur on our U.S. government contracts, including allocated indirect costs. Such audits could result in adjustments to our contract costs. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and such costs already reimbursed must be refunded. We have recorded contract revenues based upon costs we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments and we may be required to reduce our revenues or profits upon completion and final negotiation of audits. If any audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government.

Our business is subject to potential U.S. government inquiries and investigations. We are subject to certain U.S. government inquiries and investigations due to our participation in government contracts. Any such inquiry or investigation could potentially result in fines, financial penalties, or suspension or debarment from future business opportunities, which could have a material adverse effect on our results of operations and financial condition.

Our sales to the U.S. government are also subject to specific procurement regulations and other requirements. U.S. government procurement requirements are customary in U.S. government contracts, and generally result in increased performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. For example, in late 2011 the U.S. DoD published new regulations with stringent requirements and criteria to increase Government oversight of six key business systems of all prime contractors: accounting, earned value management, purchasing, material management and accounting, government property management and cost estimating. These new requirements and criteria may increase our compliance costs, and failure to comply with these regulations could result in the withholding of payments and harm our reputation and ability to secure future U.S. government contracts. Beginning in 2014, we also will be required to allocate higher pension costs to U.S. government contracts due to new requirements scheduled to be effective in 2012. These requirements could have a negative effect on our financial condition if we are unable to recoup these costs.

We enter into fixed-price contracts which could subject us to losses if we have cost overruns.

Our BDS business generated approximately 60% of its 2011 revenues from fixed-price contracts. While firm fixed price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. If our estimated costs exceed our estimated price, we recognize reach-forward losses which can significantly affect our reported results. The long term nature of many of our contracts makes the process of estimating costs and revenues on fixed-price contracts inherently risky. Fixed-price contracts often contain price incentives and penalties tied to performance which can be difficult to estimate and have significant impacts on margins. In addition, some of our contracts have specific provisions relating to cost, schedule and performance.

Fixed-price development contracts are generally subject to more uncertainty than fixed-price production contracts. Many of these development programs have highly complex designs. If we fail to meet the terms specified in those contracts, our sales price could be reduced. In addition, technical or quality issues that arise during development could lead to schedule delays and higher costs to complete, which could result in a material charge or otherwise adversely affect our financial condition. Examples of significant BDS fixed-price development contracts include AEW&C, the USAF KC-46A Tanker, India P-8I and commercial and military satellites.

Table of Contents

We enter into cost-type contracts which also carry risks.

Our BDS business generated approximately 40% of its 2011 revenues from cost-type contracting arrangements. Some of these are development programs that have complex design and technical challenges. These cost-type programs typically have award or incentive fees that are subject to uncertainty and may be earned over extended periods. 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. Programs whose contracts are primarily cost-type include GMD, BCTM, P-8A Poseidon, Proprietary programs, JTRS, FAB-T and the EA-18G Growler Airborne Attack Electronic Aircraft.

We enter into contracts that include in-orbit incentive payments that subject us to risks.

Contracts in the commercial satellite industry and certain government satellite contracts include in-orbit incentive payments. These in-orbit payments may be paid over time after final satellite acceptance or paid in full prior to final satellite acceptance. In both cases, the in-orbit incentive payment is at risk if the satellite does not perform to specifications for up to 15 years after acceptance. The net present value of in-orbit incentive fees we ultimately expect to realize is recognized as revenue in the construction period. If the satellite fails to meet contractual performance criteria, customers will not be obligated to continue making in-orbit payments and/or we may be required to provide refunds to the customer and incur significant charges.

Our ability to deliver products and services that satisfy customer requirements is heavily dependent on the performance of our subcontractors and suppliers, as well as on the availability of raw materials and other components.

We rely on other companies including subcontractors and suppliers to provide and produce raw materials, integrated components and sub-assemblies, and production commodities and to perform some of the services that we provide to our customers. If one or more of our suppliers or subcontractors experiences delivery delays or other performance problems, we may be unable to meet commitments to our customers. In addition, if one or more of the raw materials on which we depend (such as aluminum, titanium or composites) becomes unavailable or is available only at very high prices, we may be unable to deliver one or more of our products in a timely fashion or at budgeted costs. In some instances, we depend upon a single source of supply. Any service disruption from one of these suppliers, either due to circumstances beyond the supplier's control or as a result of performance problems or financial difficulties, could have a material adverse effect on our ability to meet commitments to our customers or increase our operating costs.

We use estimates in accounting for many contracts and programs. Changes in our estimates could adversely affect our future financial results.

Contract and program accounting require judgment relative to assessing risks, estimating revenues and costs and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts and programs, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract or program because costs also include expected increases in wages and employee benefits, material prices and allocated fixed costs. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Suppliers' assertions are also assessed and considered in estimating costs and profit rates. Estimates of award fees are also used in sales and profit rates based on actual and anticipated awards.

With respect to each of our commercial aircraft programs, inventoriable production costs (including overhead), program tooling and other non-recurring costs and routine warranty costs are accumulated

Table of Contents

and charged as cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts limited by the ability to make reasonably dependable estimates. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced and (c) the units' expected sales prices, production costs, program tooling and other non-recurring costs, and routine warranty costs for the total program. Several factors determine accounting quantity, including firm orders, letters of intent from prospective customers and market studies. Changes to customer or model mix, production costs and rates, learning curve, escalation, costs of derivative aircraft, supplier performance, customer negotiations/settlements, supplier claims and/or certification issues can impact these estimates. Any such change in estimates relating to program accounting may adversely affect future financial performance.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. For additional information on our accounting policies for recognizing sales and profits, see our discussion under Management's Discussion and Analysis Critical Accounting Policies Contract Accounting/Program Accounting on pages 42-44 and Note 1 to our Consolidated Financial Statements on pages 55-56 of this Form 10-K.

Competition within our markets may reduce our future contracts and sales.

The markets in which we operate are highly competitive and one or more of our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. In our Commercial Airplanes business, we anticipate increasing competition among non-U.S. aircraft manufacturers and service providers in one or more of our market segments. In our BDS business, we anticipate that the effects of defense industry consolidation and new priorities, including long-term cost competitiveness, of our U.S. DoD customer will intensify competition for many of our products and services. Furthermore, we are facing increased international competition and cross-border consolidation of competition. There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced revenues and market share.

We derive a significant portion of our revenues from non-U.S. sales and are subject to the risks of doing business in other countries.

In 2011, non-U.S. customers accounted for approximately 50% of our revenues. We expect that non-U.S. sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

- changes in regulatory requirements;
- domestic and international government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation or participation requirements;
- fluctuations in international currency exchange rates;
- volatility in international political and economic environments and changes in non-U.S. national priorities and budgets, which can lead to delays or fluctuations in orders;
- the complexity and necessity of using non-U.S. representatives and consultants;

Table of Contents

- the uncertainty of the ability of non-U.S. customers to finance purchases, including the availability of financing from the U.S. Export-Import Bank;
- uncertainties and restrictions concerning the availability of funding credit or guarantees;
- imposition of taxes, export controls, tariffs, embargoes and other trade restrictions;
- the difficulty of management and operation of an enterprise spread over many countries;
- compliance with a variety of international laws, as well as U.S. laws affecting the activities of U.S. companies abroad; and
- economic and geopolitical developments and conditions.

While the impact of these factors is difficult to predict, any one or more of these factors could adversely affect our operations in the future.

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

We are involved in a number of litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits could have a material impact on our financial position and results of operations. In addition, we are sometimes subject to government inquiries and investigations of our business due, among other things, to our business relationships with the U.S. government, the heavily regulated nature of our industry, and in the case of environmental proceedings, our ownership of certain property. Any such inquiry or investigation could potentially result in an adverse ruling against us, which could result in significant monetary payments (including possible environmental remediation costs) and have a material impact on our financial position and operating results.

A significant portion of our and Boeing Capital Corporation's customer financing portfolio is concentrated among certain customers based in the United States, and in certain types of Boeing aircraft, which exposes us to concentration risks.

A significant portion of our customer financing portfolio is concentrated among certain customers and in distinct geographic regions, particularly in the United States. Our portfolio is also concentrated by varying degrees across Boeing aircraft product types, most notably 717 aircraft. If one or more customers holding a significant portion of our portfolio assets experiences financial difficulties or otherwise defaults on or does not renew its leases with us at their expiration, and we are unable to redeploy the aircraft on reasonable terms, or if the types of aircraft that are concentrated in our portfolio suffer greater than expected declines in value, our earnings, cash flows and/or financial position could be materially adversely affected.

We may be unable to obtain debt to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms or in sufficient amounts.

We depend, in part, upon the issuance of debt to fund our operations and contractual commitments. As of December 31, 2011, our airplane financing commitments totaled \$15,866 million, as compared to \$9,865 million as of December 31, 2010. If we require additional funding in order to fund outstanding financing commitments or meet other business requirements, our market liquidity may not be sufficient. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include disruptions or declines in the

Table of Contents

global capital markets and/or a decline in our financial performance or outlook or credit ratings. The occurrence of any or all of these events may adversely affect our ability to fund our operations and contractual or financing commitments.

We may not realize the anticipated benefits of mergers, acquisitions, joint ventures/strategic alliances or divestitures.

As part of our business strategy, we may merge with or acquire businesses and/or form joint ventures and strategic alliances. Whether we realize the anticipated benefits from these acquisitions and related activities depends, in part, upon our ability to integrate the operations of the acquired business, the performance of the underlying product and service portfolio, the performance of the management team and other personnel of the acquired operations. Accordingly, our financial results could be adversely affected from unanticipated performance issues, legacy liabilities, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance and indemnifications. Consolidations of joint ventures could also impact our reported results of operations or financial position. While we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful. We also may make strategic divestitures from time to time. These transactions may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Nonperformance by those divested businesses could affect our future financial results through additional payment obligations, higher costs or asset write-downs.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We are exposed to liabilities that are unique to the products and services we provide. While we maintain insurance for certain risks and, in some circumstances, we may receive indemnification from the U.S. government, insurance cannot be obtained to protect against all risks and liabilities. It is therefore possible that the amount of our insurance coverage may not cover all claims or liabilities, and we may be forced to bear substantial costs. For example, liabilities arising from the use of certain of our products, such as aircraft technologies, missile systems, border security systems, anti-terrorism technologies, and/or air traffic management systems may not be insurable on commercially reasonable terms. While many of these products are shielded from liability within the U.S. under the SAFETY Act provisions of the 2002 Homeland Security Act, no such protection is available outside the U.S., potentially resulting in significant liabilities. The amount of insurance coverage we are able to maintain may be inadequate to cover these or other claims or liabilities.

Business disruptions could seriously affect our future sales and financial condition or increase our costs and expenses.

Our business may be impacted by disruptions including threats to physical security, information technology or cyber-attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Any of these disruptions could affect our internal operations or our ability to deliver products and services to our customers. Any significant production delays, or any destruction, manipulation or improper use of our data, information systems or networks could impact our sales, increase our expenses and/or have an adverse affect the reputation of Boeing and of our products and services.

Table of Contents***Some of our and our suppliers' workforces are represented by labor unions, which may lead to work stoppages.***

Approximately 63,000 employees, which constitute 37% of our total workforce, are union represented as of December 31, 2011. We experienced a work stoppage in 2008 when a labor strike halted commercial aircraft and certain BMA program production and we may experience additional work stoppages in the future, which could adversely affect our business. We cannot predict how stable our relationships, currently with 12 U.S. labor organizations and 7 non-U.S. labor organizations, will be or whether we will be able to meet the unions' requirements without impacting our financial condition. The unions may also limit our flexibility in dealing with our workforce. Union actions at suppliers can also affect us. Work stoppages and instability in our union relationships could delay the production and/or development of our products, which could strain relationships with customers and cause a loss of revenues which would adversely affect our operations.

Significant changes in discount rates, actual investment return on pension assets and other factors could reduce our earnings, equity, and increase pension contributions in future periods.

The actuarial assumptions underlying the income or expense we record for our pension and other postretirement benefit plans reflect assumptions relating to financial market and other economic conditions, such as the discount rate, the expected long-term rate of return on plan assets and expected future medical inflation. Changes to these assumptions and differences between projected and actual performance can have a significant effect on our annual pension and other post retirement costs and/or result in a significant change to Shareholders' equity. For U.S. government contracts, we must allocate pension costs to individual contracts based on U.S. Cost Accounting Standards which can also affect contract profitability. For a discussion regarding how our financial statements can be affected by pension and other postretirement plan accounting policies, see Management's Discussion and Analysis Critical Accounting Policies Postretirement Plans on pages 45-46 of this Form 10-K. Although GAAP expense and pension or other postretirement contributions are not directly related, the key economic factors that affect GAAP expense would also likely affect the amount of cash or common stock we would contribute to our plans. Potential pension contributions include both mandatory amounts required under federal law Employee Retirement Income Security Act (ERISA) and discretionary contributions to improve the plans' funded status.

Our operations expose us to the risk of material environmental liabilities.

We are subject to various federal, state, local and non-U.S. laws and regulations related to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if we were to violate or become liable under environmental laws or regulations. In some cases, we may be subject to such costs due to environmental impacts attributable to our current or past manufacturing operations or the operations of companies we have acquired. In other cases, we may become subject to such costs due to an indemnification agreement between us and a third party relating to such environmental liabilities. In addition, new laws and regulations, more stringent enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new remediation requirements could result in additional costs. For additional information relating to environmental contingencies, see Note 12 to our Consolidated Financial Statements.

Unauthorized access to our or our customers' information and systems could negatively impact our business.

We face certain security threats, including threats to the confidentiality, availability and integrity of our data and systems. We maintain an extensive network of technical security controls, policy enforcement mechanisms and monitoring systems in order to address these threats. While these measures are

Table of Contents

designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks could result in significant financial losses and/or reputational harm. In addition, we manage information technology systems for certain customers. Many of these customers face similar security threats. If we cannot prevent the unauthorized access, release and/or corruption of our customers' confidential, classified or personally identifiable information, our reputation could be damaged, and/or we could face financial losses.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

We occupied approximately 85 million square feet of floor space on December 31, 2011 for manufacturing, warehousing, engineering, administration and other productive uses, of which approximately 96% was located in the United States.

The following table provides a summary of the floor space by business as of December 31, 2011:

<i>(Square feet in thousands)</i>	Owned	Leased	Government Owned*	Total
Commercial Airplanes	36,071	5,231		41,302
Boeing Defense, Space & Security	30,221	8,432	157	38,810
Other**	3,542	1,122		4,664
Total	69,834	14,785	157	84,776

* Excludes rent-free space furnished by U.S. government landlord of 695 square feet.

** Other includes BCC; EO&T; SSG; and our Corporate Headquarters.

At December 31, 2011, our segments occupied facilities at the following major locations that occupied in excess of 78 million square feet of floor space:

- Commercial Airplanes Greater Seattle, WA; North Charleston, SC; Greater Los Angeles, CA; Portland, OR; Australia; and Canada
- Boeing Defense, Space & Security Greater Los Angeles, CA; Greater Seattle, WA; Greater St. Louis, MO; Philadelphia, PA; San Antonio, TX; Huntsville, AL; Mesa, AZ; Wichita, KS; Houston, TX; and Greater Washington, DC
- Other Chicago, IL and Greater Seattle, WA

Most runways and taxiways that we use are located on airport properties owned by others and are used jointly with others. Our rights to use such facilities are provided for under long-term leases with municipal, county or other government authorities. In addition, the U.S. government furnishes us certain office space, installations and equipment at U.S. government bases for use in connection with various contract activities.

We believe that our major properties are adequate for our present needs and, as supplemented by planned improvements and construction, expect them to remain adequate for the foreseeable future.

Item 3. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 21 to our Consolidated Financial Statements, which is hereby incorporated by reference.

Table of Contents

On April 20, 2011, the National Labor Relations Board (NLRB) issued a complaint regarding our decision to build a 787 final assembly plant in North Charleston, South Carolina. On December 8, 2011 the IAM requested that its charge be withdrawn, and on December 9, 2011 the NLRB withdrew the charge and dismissed the complaint.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The principal market for our common stock is the New York Stock Exchange where it trades under the symbol BA. As of February 1, 2012, there were 204,705 shareholders of record. Additional information required by this item is incorporated by reference from Note 23 to our Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended December 31, 2011 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs ⁽²⁾
10/1/2011 thru 10/31/2011	42,399	\$ 60.21		\$ 3,610
11/1/2011 thru 11/30/2011	2,331	64.64		3,610
12/1/2011 thru 12/31/2011	1,851	70.62		3,610
Total	46,581	\$ 60.85		

⁽¹⁾ We purchased an aggregate of 46,474 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. In addition, we purchased an aggregate of 107 shares in swap transactions.

⁽²⁾ On October 29, 2007, the Board approved the repurchase of up to \$7 billion of common stock (the Program). Unless terminated earlier by a Board resolution, the Program will expire when we have used all authorized funds for repurchase.

Table of Contents**Item 6. Selected Financial Data****Five-Year Summary (Unaudited)**

<i>(Dollars in millions, except per share data)</i>	2011	2010	2009	2008	2007
Operations					
Revenues:					
Commercial Airplanes	\$ 36,171	\$ 31,834	\$ 34,051	\$ 28,263	\$ 33,386
Boeing Defense, Space & Security: ⁽¹⁾					
Boeing Military Aircraft	14,947	14,238	14,304	13,445	13,545
Network & Space Systems	8,673	9,455	10,877	11,346	11,481
Global Services & Support	8,356	8,250	8,480	7,256	7,026
Total Boeing Defense, Space & Security	31,976	31,943	33,661	32,047	32,052
Boeing Capital Corporation	532	639	660	703	815
Other segment	138	138	165	567	308
Unallocated items and eliminations	(82)	(248)	(256)	(671)	(174)
Total revenues	\$ 68,735	\$ 64,306	\$ 68,281	\$ 60,909	\$ 66,387
General and administrative expense	3,408	3,644	3,364	3,084	3,531
Research and development expense	3,918	4,121	6,506	3,768	3,850
Other income/(loss), net	47	52	(26)	247	484
Net earnings from continuing operations	\$ 4,011	\$ 3,311	\$ 1,335	\$ 2,654	\$ 4,058
Net gain/(loss) on disposal of discontinued operations, net of tax	7	(4)	(23)	18	16
Net earnings	\$ 4,018	\$ 3,307	\$ 1,312	\$ 2,672	\$ 4,074
Basic earnings per share from continuing operations	5.38	4.50	1.89	3.68	5.36
Diluted earnings per share from continuing operations	5.33	4.46	1.87	3.65	5.26
Cash dividends declared	\$ 1,263	\$ 1,245	\$ 1,233	\$ 1,187	\$ 1,129
Per share	1.70	1.68	1.68	1.62	1.45
Additions to Property, plant and equipment	1,713	1,125	1,186	1,674	1,731
Depreciation of Property, plant and equipment	1,119	1,096	1,066	1,013	978
Employee salaries and wages	17,008	15,709	15,424	15,559	14,852
Year-end workforce	171,700	160,500	157,100	162,200	159,300
Financial position at December 31					
Total assets	\$ 79,986	\$ 68,565	\$ 62,053	\$ 53,779	\$ 58,986
Working capital	8,536	5,177	2,392	(4,809)	(4,184)
Property, plant and equipment, net	9,313	8,931	8,784	8,762	8,265
Cash and cash equivalents	10,049	5,359	9,215	3,268	7,042
Short-term and other investments	1,223	5,158	2,008	11	2,266
Total debt	12,371	12,421	12,924	7,512	8,217
Customer financing assets	4,772	4,680	5,834	6,282	7,105
Shareholders' equity ⁽²⁾	3,515	2,766	2,128	(1,294)	9,004
Per share	4.72	3.76	2.93	(1.85)	12.22
Common shares outstanding (in millions) ⁽³⁾	744.7	735.3	726.3	698.1	736.7
Contractual Backlog:					
Commercial Airplanes	\$ 293,303	\$ 255,591	\$ 250,476	\$ 278,575	\$ 255,176
Boeing Defense, Space & Security: ⁽¹⁾					
Boeing Military Aircraft	24,085	25,094	26,354	25,802	23,027
Network & Space Systems	9,056	9,586	7,746	8,868	9,207
Global Services & Support	13,213	13,684	11,924	10,615	9,554
Total Boeing Defense, Space & Security	46,354	48,364	46,024	45,285	41,788
Total contractual backlog	\$ 339,657	\$ 303,955	\$ 296,500	\$ 323,860	\$ 296,964

Cash dividends have been paid on common stock every year since 1942.

(1) Effective January 1, 2010, certain programs were realigned between BDS segments. Prior years have been recast for segment realignments.

(2) Shareholders' equity excludes noncontrolling interest. Prior year amounts have been adjusted to conform to this presentation.

(3) Represents actual number of shares outstanding as of December 31 and excludes treasury shares and the outstanding shares held by the ShareValue Trust, which was terminated in July 2010.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Consolidated Results of Operations and Financial Condition****Overview**

We are a global market leader in design, development, manufacture, sale and support of commercial jetliners, military aircraft, satellites, missile defense, human space flight and launch systems and services. We are one of the two major manufacturers of 100+ seat airplanes for the worldwide commercial airline industry and one of the largest defense contractors in the U.S. While our principal operations are in the U.S., we conduct operations in many countries and rely on an extensive network of international partners, key suppliers and subcontractors.

Our strategy is centered on successful execution in healthy core businesses—Commercial Airplanes and Boeing Defense, Space & Security (BDS)—supplemented and supported by Boeing Capital Corporation (BCC). Taken together, these core businesses have historically generated substantial earnings and cash flow that permit us to invest in new products and services. We focus on producing the products and providing the services that the market demands and we price our products and services to provide a fair return for our shareholders while continuing to find new ways to improve efficiency and quality. Commercial Airplanes is committed to being the leader in commercial aviation by offering airplanes and services that deliver superior design, efficiency and value to customers around the world. BDS integrates its resources in defense, intelligence, communications, security and space to deliver capability-driven solutions to its customers at reduced costs. Our strategy is to leverage our core businesses to capture key next-generation programs while expanding our presence in adjacent and international markets, underscored by an intense focus on growth and productivity. Our strategy also benefits as the cyclical nature of commercial and defense markets often offset. BCC delivers value by supporting our business units and managing overall financing exposure.

Consolidated Results of Operations**Revenues**

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Commercial Airplanes	\$ 36,171	\$ 31,834	\$ 34,051
Boeing Defense, Space & Security	31,976	31,943	33,661
Boeing Capital Corporation	532	639	660
Other segment	138	138	165
Unallocated items and eliminations	(82)	(248)	(256)
Total	\$ 68,735	\$ 64,306	\$ 68,281

Revenues in 2011 increased by \$4,429 million or 7% compared with 2010. Commercial Airplanes revenues increased by \$4,337 million due to higher new airplane deliveries, including the impact of entry into service of the 787-8 and 747-8 Freighter, favorable new airplane delivery mix and higher commercial aviation services revenues. BDS revenues increased by \$33 million primarily due to higher revenues in the Boeing Military Aircraft (BMA) and Global Services & Support (GS&S) segments, partially offset by lower revenues in the Network & Space Systems (N&SS) segment.

Revenues in 2010 decreased by \$3,975 million or 6% compared with 2009. Commercial Airplanes revenues decreased by \$2,217 million due to lower 777 deliveries primarily resulting from a production rate change from 7 to 5 per month beginning in June 2010 and no deliveries on the 747 program due

Table of Contents

to the transition from the 747-400 to the 747-8. These were partially offset by increases in commercial aviation services business. BDS revenues decreased by \$1,718 million primarily due to lower revenues in the N&SS segment.

Earnings From Operations

The following table summarizes our earnings/(loss) from operations:

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Commercial Airplanes	\$ 3,495	\$ 3,006	\$ (583)
Boeing Defense, Space & Security	3,158	2,875	3,298
Boeing Capital Corporation	125	152	126
Other segment	54	(327)	(151)
Unallocated items and eliminations	(988)	(735)	(594)
Total	\$ 5,844	\$ 4,971	\$ 2,096

Operating earnings in 2011 increased by \$873 million compared with 2010. Commercial Airplanes earnings increased by \$489 million, primarily due to higher revenues and a reduction in research and development costs, partially offset by increases in period costs associated with business growth. BDS earnings increased by \$283 million compared with 2010 due to higher earnings in the BMA and GS&S segments, partially offset by lower earnings in the N&SS segment. Other segment earnings increased by \$381 million primarily due to a \$241 million reduction in the allowance for losses on receivables during 2011. Unallocated items and eliminations in 2011 reduced earnings by \$253 million compared with 2010 primarily due to higher pension and postretirement costs.

Operating earnings in 2010 increased by \$2,875 million compared with 2009. Commercial Airplanes earnings increased by \$3,589 million, primarily due to \$2,693 million of costs related to the first three 787 flight test aircraft included in research and development expense in 2009 and the 2009 reach-forward losses on the 747 program of \$1,352 million. BDS earnings decreased by \$423 million compared with 2009 due to lower margins in the BMA segment and lower revenues in the N&SS segment. Other segment earnings decreased by \$176 million primarily due to \$119 million in intercompany guarantees related to aircraft impairment charges and reduced aircraft collateral values.

The most significant items included in Unallocated items and eliminations are shown in the following table:

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Share-based plans	\$ (83)	\$ (136)	\$ (189)
Deferred compensation	(61)	(112)	(158)
Pension	(269)	54	110
Postretirement	(248)	(59)	(93)
Eliminations and other	(327)	(482)	(264)
Total	\$ (988)	\$ (735)	\$ (594)

Share-based plans expense decreased by \$53 million in both 2011 and 2010 primarily due to the expiration of the ShareValue trust at June 30, 2010.

Deferred compensation expense decreased by \$51 million and \$46 million in 2011 and 2010. The year over year changes in deferred compensation expense are primarily driven by changes in our stock price and broad stock market conditions.

Table of Contents

Eliminations and other unallocated items expense decreased by \$155 million in 2011 and increased by \$218 million in 2010 primarily due to timing of intercompany expense allocations and elimination of profit on intercompany items. 2010 expense also includes a \$55 million charitable contribution.

Unallocated pension and other postretirement expense represents the difference between costs recognized under Generally Accepted Accounting Principles in the United States of America (GAAP) in the consolidated financial statements and federal cost accounting standards required to be utilized by our business segments for U.S. government contracting purposes. We recorded net periodic benefit cost related to pensions and other postretirement benefits of \$3,127 million, \$1,864 million and \$1,816 million in 2011, 2010, and 2009, respectively. The increase in net periodic benefit costs related to pensions and other postretirement benefits is primarily due to higher amortization of actuarial losses and higher service costs driven by lower discount rates. Not all net periodic benefit cost is recognized in earnings in the period incurred because it is allocated to production as product costs and a portion remains in inventory at the end of the reporting period. A portion of pension and other postretirement expense is recorded in the business segments and the remainder is included in unallocated pension and other postretirement expense. The unallocated expense in 2011 includes \$161 million of additional expense recorded during the third quarter due to an adjustment primarily related to prior years accumulated postretirement benefit obligations. See the discussion of the postretirement liabilities in Note 15 to our Consolidated Financial Statements. Earnings from operations included the following amounts allocated to business segments and Other unallocated items and eliminations.

<i>(Dollars in millions)</i>		Pension			Other Postretirement Benefits		
		2011	2010	2009	2011	2010	2009
Years ended December 31,							
Allocated to business segments		\$ (1,379)	\$ (1,155)	\$ (989)	\$ (444)	\$ (421)	\$ (522)
Other unallocated items and eliminations		(269)	54	110	(248)	(59)	(93)
Total		\$ (1,648)	\$ (1,101)	\$ (879)	\$ (692)	\$ (480)	\$ (615)

Other Earnings Items

(Dollars in millions)

Years ended December 31,		2011	2010	2009
Earnings from operations		\$ 5,844	\$ 4,971	\$ 2,096
Other income/(expense), net		47	52	(26)
Interest and debt expense		(498)	(516)	(339)
Earnings before income taxes		5,393	4,507	1,731
Income tax expense		(1,382)	(1,196)	(396)
Net earnings from continuing operations		\$ 4,011	\$ 3,311	\$ 1,335

Other income decreased by \$5 million in 2011 due to lower interest rates. The increase of \$78 million in 2010 was driven by investment income on higher cash and investment balances. Interest and debt expense decreased by \$18 million in 2011 due to the replacement of debt at lower interest rates. The increase of \$177 million in 2010 was due to debt issued in 2009.

Our effective income tax rate was 25.6%, 26.5% and 22.9% for the years ended December 31, 2011, 2010 and 2009, respectively. Our effective tax rate was lower in 2011 than in 2010 primarily due to an income tax charge of \$150 million recorded during the first quarter of 2010 as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010. During 2011, our effective tax rate was reduced by 7.4% due to a tax benefit of \$397 million

Table of Contents

recorded as a result of settling the 2004-2006 federal audit. We do not expect to settle any outstanding federal audits in 2012. Our effective tax rate was higher in 2010 than 2009, primarily because pre-tax book income in 2010 was higher than in 2009 and because of the income tax charge of \$150 million recorded during the first quarter of 2010. This was partially offset by a tax benefit of \$371 million recorded during the fourth quarter of 2010 as a result of settling the 1998-2003 federal audit. For additional discussion related to Income Taxes, see Note 5 to our Consolidated Financial Statements.

Backlog

Our backlog at December 31 was as follows:

<i>(Dollars in millions)</i>	2011	2010	2009
Contractual Backlog:			
Commercial Airplanes	\$ 293,303	\$ 255,591	\$ 250,476
Boeing Defense, Space & Security:			
Boeing Military Aircraft	24,085	25,094	26,354
Network & Space Systems	9,056	9,586	7,746
Global Services & Support	13,213	13,684	11,924
Total Boeing Defense, Space & Security	46,354	48,364	46,024
Total contractual backlog	\$ 339,657	\$ 303,955	\$ 296,500
Unobligated backlog	\$ 15,775	\$ 16,871	\$ 19,058

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 in contractual backlog during 2011 and 2010 was due to commercial airplane orders in excess of deliveries and changes in projected revenue escalation for undelivered commercial airplanes.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The decrease in unobligated backlog during 2011 is due to decreases at BDS of \$3,135 million compared with 2010 primarily due to funding of existing multi-year contracts and termination for convenience by the U.S. Army of the Brigade Combat Team Modernization (BCTM) program, partially offset by the U.S. Air Force (USAF) contract for the KC-46A Tanker and the Missile Defense Agency Development and Sustainment Contract. The decrease in unobligated backlog during 2010 is due to decreases at BDS of \$1,993 million compared with 2009 primarily due to funding of existing multi-year contracts including the V-22, BCTM and Chinook programs, partially offset by multi-year procurement contract awards on the F/A-18 and International Space Station programs.

Additional Considerations

KC-46A Tanker On February 24, 2011, we were awarded a contract from the USAF to design, develop, manufacture and deliver 4 next generation aerial refueling tankers. The KC-46A Tanker will be a derivative of our 767 commercial aircraft. This contract is a fixed-price incentive firm contract valued at \$4.9 billion and involves highly complex designs. Changes to our estimated cost to perform the work could result in a material charge. This contract contains production options. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately \$30 billion. For segment reporting purposes, backlog, revenues and costs are recorded in the Commercial Airplanes and BMA segments.

Table of Contents

Segment Results of Operations and Financial Condition

Commercial Airplanes

Business Environment and Trends

Airline Industry Environment Political turmoil in the Middle East, the March 2011 natural disasters in Japan, the European sovereign debt crisis, deficit reduction challenges in the United States and high fuel prices continue to impact the global economy and airline traffic and costs. In the face of these challenges, passenger traffic has generally been more resilient than air cargo traffic. Air cargo traffic began contracting in May, and 2011 full year estimates indicate no growth over 2010. In contrast, 2011 passenger traffic year-over-year growth is expected to average around 6%, above the long-term average of 5%. However, there continues to be significant performance variation between regions and airline business models, with emerging markets and low cost carriers leading in the passenger markets. Despite relatively resilient passenger traffic, net profits for the global airline industry were impacted in 2011 by high oil prices, which were approximately 40% higher, on average, than 2010 prices. Net profits for the global airline industry are expected to be modest this year, totaling \$7 billion in 2011, reduced from \$16 billion in 2010.

Airlines continue to focus on boosting revenue through alliances and partnerships and ancillary fees and services, while also cutting costs and renewing fleets to leverage more fuel efficient airplanes in a high-fuel-price environment. These airline strategies helped the airlines weather the global uncertainty in 2011. Current baseline forecasts for the economy and traffic suggest the outlook is for continued net profitability for the global airline industry in 2012, although expectations are that 2012 profits will be substantially lower than current estimates for 2011. Demand for commercial aircraft is also influenced by the availability of aircraft financing including export financing and other financing sources. Going into 2012 the European sovereign debt crisis remains a significant risk to the global economy and the airline industry.

The long-term outlook for the industry remains positive due to the fundamental drivers of air travel growth: economic growth and the increasing propensity to travel due to increased trade, globalization, and improved airline services driven by liberalization of air traffic rights between countries. Our 20-year forecast is for a long-term average growth rate of 5% - 6% per year for passenger and cargo traffic, based on a projected average annual worldwide real economic growth rate of 3%. Based on long-term global economic growth projections, and factoring in increased utilization of the worldwide airplane fleet and requirements to replace older airplanes, we project a \$4.0 trillion market for 33,500 new airplanes over the next 20 years.

The industry remains vulnerable to near-term exogenous developments including fuel price spikes, credit market shocks, terrorism, natural disasters, conflicts, and increased global environmental regulations.

Industry Competitiveness The commercial jet airplane market and the airline industry remain extremely competitive. Market liberalization in Europe and Asia has enabled low-cost airlines to continue gaining market share. These airlines have increased the downward pressure on airfares. This results in continued cost pressures for all airlines and price pressure on our products. Major productivity gains are essential to ensure a favorable market position at acceptable profit margins.

Continued access to global markets remains vital to our ability to fully realize our sales potential and long-term investment returns. Approximately 15% of Commercial Airplanes contractual backlog, in dollar terms, is with U.S. airlines.

We face aggressive international competitors who are intent on increasing their market share. They offer competitive products and have access to most of the same customers and suppliers. Airbus has

Table of Contents

historically invested heavily to create a family of products to compete with ours. Regional jet makers Embraer and Bombardier, coming from the less than 100-seat commercial jet market, continue to develop larger and more capable airplanes. Additionally, other competitors from Russia, China and Japan are likely to enter the 70 to 190 seat airplane market over the next few years. Many of these competitors have historically enjoyed access to government-provided financial support, including launch aid, which greatly reduces the commercial risks associated with airplane development activities and enables airplanes to be brought to market more quickly than otherwise possible. This market environment has resulted in intense pressures on pricing and other competitive factors, and we expect these pressures to continue or intensify in the coming years.

Worldwide, airplane sales are generally conducted in U.S. dollars. Fluctuating exchange rates affect the profit potential of our major competitors, all of whom have significant costs in other currencies. Changes in value of the U.S. dollar relative to their local currencies impact competitors' revenues and profits. Competitors routinely respond to a relatively weaker U.S. dollar by aggressively reducing costs and increasing productivity, thereby improving their longer-term competitive posture. Airbus has announced such initiatives targeting overhead cost savings, a reduction in its development cycle and a significant increase in overall productivity through 2012. If the U.S. dollar strengthens, Airbus can use the improved efficiency to fund product development, gain market share through pricing and/or improve earnings.

We are focused on improving our processes and continuing cost-reduction efforts. We continue to leverage our extensive customer support services network which includes aviation support, spares, training, maintenance documents and technical advice for airlines throughout the world. This enables us to provide a high level of customer satisfaction and productivity. These efforts enhance our ability to pursue pricing strategies that enable us to price competitively.

Operating Results

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 36,171	\$ 31,834	\$ 34,051
% of Total company revenues	53%	50%	50%
Earnings/(loss) from operations	\$ 3,495	\$ 3,006	\$ (583)
Operating margins	9.7%	9.4%	-1.7%
Research and development	\$ 2,715	\$ 2,975	\$ 5,383
Contractual backlog	\$ 293,303	\$ 255,591	\$ 250,476
Unobligated backlog	\$ 2,088	\$ 49	\$ 242

Revenues

Year-over-year changes in Revenue are shown in the following table:

<i>(Dollars in millions)</i>	2011 vs. 2010	2010 vs. 2009
New airplane sales	\$ 3,766	\$ (2,733)
Commercial aviation services	594	569
Other	(23)	(53)
Total	\$ 4,337	\$ (2,217)

Table of Contents

Revenues for 2011 increased by \$4,337 million or 13.6% compared with 2010 due to higher new airplane deliveries, including the impact of entry into service of the 787-8 and 747-8 Freighter, favorable commercial airplane delivery model mix and higher commercial aviation services revenues. The increase in revenues from commercial aviation services was primarily due to increased sales of spares.

Revenues for 2010 decreased by \$2,217 million or 6.5% compared with 2009. The decrease in new airplane revenues primarily reflects lower 777 deliveries resulting from a production rate change from 7 to 5 per month beginning in June 2010 and no deliveries on the 747 program due to the transition from the 747-400 to the 747-8 derivative. The increase in revenues from commercial aviation services business was primarily due to increased sales of spares.

Commercial airplanes deliveries as of December 31 were as follows:

	737	747	767	777	787	Total
2011						
Cumulative Deliveries	3,878	1,427	1,014	983	3	
Deliveries	372 ⁽¹⁾	9	20	73	3	477
2010						
Cumulative Deliveries	3,506	1,418	994	910		
Deliveries	376 ⁽¹⁾		12	74		462
2009						
Cumulative Deliveries	3,130	1,418	982	836		
Deliveries	372 ⁽¹⁾	8	13	88		481

⁽¹⁾ Includes intercompany deliveries of 7 737 airplanes in 2011, 5 737 airplanes in both 2010 and 2009.

Earnings From Operations

Earnings from operations for 2011 increased by \$489 million compared with 2010. This increase reflects earnings of \$376 million from higher revenues on new airplane deliveries, \$180 million of higher earnings due to commercial aviation services volume and margins and \$261 million of lower research and development expense, partially offset by increases of \$328 million reflecting higher fleet support costs and other costs associated with business growth.

Earnings from operations for 2010 increased by \$3,589 million compared with 2009. The increase was primarily due to the 2009 reclassification from inventory to research and development expense of costs related to the first three 787 flight test airplanes, and the 2009 reach-forward losses on the 747 program. Costs of \$2,693 million included in research and development expense in 2009 for the first three flight test 787 airplanes were a result of our determination that these airplanes could not be sold. The reach-forward loss on the 747 program of \$1,352 million during 2009 was primarily due to increased production costs, reductions in projected delivery price increases associated with escalation and the difficult market conditions affecting the 747-8. The remaining net decrease in earnings for 2010 was primarily attributable to increased research and development expense of \$285 million and lower new airplane deliveries.

Backlog Firm backlog represents orders for products and services where no contingencies remain before Boeing and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the customers receiving approval from their Board of Directors, shareholders or government and 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. Firm orders exclude options. A number of our customers may have

Table of Contents

contractual remedies that may be implicated by program delays. We continue to address customer claims and requests for other contractual relief as they arise. However, once orders are included in firm backlog, orders remain in backlog until canceled or fulfilled, although the value of orders is adjusted as changes to price and schedule are agreed to with customers.

The increase in contractual backlog during 2011 and 2010 was due to orders in excess of deliveries and changes in projected revenue escalation, partially reduced by cancellations of orders. The increase in unobligated backlog in 2011 represents Commercial Airplanes' share of the USAF contract for the KC-46A Tanker.

Accounting Quantity The accounting quantity is our estimate of the quantity of airplanes that will be produced for delivery under existing and anticipated contracts. The determination of the accounting quantity is limited by the ability to make reasonably dependable estimates of the revenue and cost of existing and anticipated contracts. It is a key determinant of the gross margins we recognize on sales of individual airplanes throughout a program's life. Estimation of each program's accounting quantity takes into account several factors that are indicative of the demand for that program, including firm orders, letters of intent from prospective customers and market studies. We review our program accounting quantities quarterly.

The accounting quantity for each program may include units that have been delivered, undelivered units under contract, and units anticipated to be under contract in the reasonable future (anticipated orders). In developing total program estimates, all of these items within the accounting quantity must be considered.

The table below provides details of the accounting quantities and firm orders by program as of December 31. Cumulative firm orders represent the cumulative number of commercial jet airplane deliveries plus undelivered firm orders.

	Program				
	737	747	767	777	787
2011					
Program accounting quantities	6,200	1,549	1,084	1,350	1,100
Undelivered units under firm orders	2,365	97	72	380	857
Cumulative firm orders	6,243	1,524	1,086	1,363	860
2010					
Program accounting quantities	5,000	1,524	1,048	1,150	*
Undelivered units under firm orders	2,186	107	50	253	847
Cumulative firm orders	5,692	1,525	1,044	1,163	847
2009					
Program accounting quantities	4,600	1,499	1,035	1,100	*
Undelivered units under firm orders	2,076	108	59	281	851
Cumulative firm orders	5,206	1,526	1,041	1,117	851

* The initial accounting quantity for the 787 program was established in the third quarter of 2011.

737 Program The accounting quantity for the 737 program increased by 1,200 units in 2011 due to the program's normal progress of obtaining additional orders and delivering airplanes. During 2010, we announced plans to increase monthly production from 31.5 to 35 airplanes per month beginning in 2012 and a further increase to 38 airplanes per month beginning in 2013. On June 15, 2011, to address continued demand for delivery positions, we announced plans to increase production of the 737 to 42 airplanes per month beginning in 2014. On August 30, 2011, we announced the launch of the 737 MAX, the new engine variant of the 737. First delivery of the 737 MAX is expected in 2017.

Table of Contents

747 Program The accounting quantity for the 747 program increased by 25 units in 2011. The 747-8 Freighter was certified during the third quarter and first delivery occurred in October 2011. First flight of the 747-8 Intercontinental passenger derivative occurred in March 2011 and type certification was achieved in the fourth quarter of 2011. During 2011, expected first delivery of the 747-8 Intercontinental was moved from the fourth quarter of 2011 to the first quarter of 2012 due to a delay in flight testing and the time required to incorporate all flight test driven engineering and design changes. We remain focused on incorporating these and other changes identified during flight testing into completed airplanes, achieving a planned production rate increase from 1.5 to 2 airplanes per month in mid-2012, reducing out-of-sequence work and improving supply chain efficiency. We are also continuing to monitor cargo market conditions. If risks associated with these areas cannot be mitigated, the program could be impacted by customer claims, lower orders, supplier assertions and/or the recognition of an additional reach-forward loss. We continue to implement mitigation plans and cost-reduction efforts to improve program profitability and address program risks.

767 Program The accounting quantity for the 767 program increased by 36 units in 2011 due to the program's normal progress of obtaining additional orders and delivering airplanes.

777 Program The accounting quantity for the 777 program increased by 200 units in 2011 due to the program's normal progress of obtaining additional orders and delivering airplanes. The 777 program's first delivery at 7 airplanes per month from 5 per month occurred in June 2011. A further increase to 8.3 airplanes per month is planned for the first quarter of 2013.

787 Program We completed initial type certification flight testing activities and received design and production certifications for the 787-8 during the third quarter of 2011. We delivered the first 787-8 airplane in September 2011 and delivered two additional aircraft in the fourth quarter of 2011. We also completed the critical design review for the 787-9 derivative in 2011. In October 2011 we announced that the expected date of first delivery of the 787-9 had moved to early 2014 from late 2013.

We continued to produce aircraft during flight testing and established a separate facility to incorporate engineering and other design changes identified during flight testing on already completed aircraft. We expect that aircraft completed in our Everett facility through mid-year 2012 will also require change incorporation. However, we expect that these later airplanes will require significantly less change incorporation than airplanes completed prior to 2012. We remain focused on achieving planned increases in 787 production rates while continuing to satisfy customer mission and performance requirements. We also continue to monitor and address challenges associated with aircraft assembly, including management of our extended global supply chain, incorporation of design changes into aircraft in various stages of assembly, completion and integration of traveled work as well as weight and systems integration. During 2011 we increased the production rate to 2.5 per month at our Everett final assembly line and started up the North Charleston final assembly line. We currently expect to increase the production rate of 787 aircraft to 10 aircraft per month in final assembly by the end of 2013 with first deliveries occurring at that rate in early 2014. Our efforts to achieve planned production rate targets include improving the production system, coordinating rate increases with suppliers, increasing production rates in both Everett and North Charleston, and establishing transitional surge capacity at Everett. In addition, we continue to work with our customers and suppliers to assess the specific impacts of prior schedule changes, including requests for contractual relief related to delivery delays and supplier assertions.

During 2009, we concluded that the first three flight-test 787 aircraft could not be sold as previously anticipated due to the inordinate amount of rework and unique and extensive modifications made to those aircraft. As a result, costs associated with these airplanes were included in research and development expense. We believe that the other three 787 flight test aircraft are commercially saleable and we continue to include costs related to those airplanes in program inventory at December 31, 2011. If we determine that one or more of the other aircraft cannot be sold, we may incur additional charges.

Table of Contents

During the third quarter of 2011, we established an initial accounting quantity of 1,100 units, representing approximately 10 years of production at planned production rates. The cumulative impacts of production challenges, change incorporation, schedule delays and customer and supplier impacts have created significant pressure on program profitability. As a result, we have recorded low margins on our 2011 deliveries. Future challenges, including not meeting one or more planned production rate increases going forward, or introducing the 787-9 derivative as scheduled, could result in additional customer claims and/or supplier assertions as well as result in further pressures on program profitability and/or a reach-forward loss. We continue to implement mitigation plans and cost-reduction efforts to improve program profitability and address program risks.

Fleet Support We provide the operators of our commercial airplanes with assistance and services to facilitate efficient and safe airplane operation. Collectively known as fleet support services, these activities and services begin prior to airplane delivery and continue throughout the operational life of the airplane. They include flight and maintenance training, field service support costs, engineering services, information services and systems and technical data and documents. The costs for fleet support are expensed as incurred and have been historically less than 1.5% of total consolidated costs of products and services. These costs are expected to continue to increase due to the 787 and 747-8 entry into service.

Research and Development The following chart summarizes the time horizon between go-ahead and initial delivery for major Commercial Airplanes derivatives and programs.

Our Research and development expense decreased by \$260 million in 2011. This was primarily due to certification of the 747-8 Freighter and 787-8.

Our Research and development expense decreased by \$2,408 million in 2010. This was primarily due to the reclassification to research and development expense of \$2,693 million of production costs related to the three 787 flight test airplanes in 2009, partially offset by a \$285 million increase of other research and development expense.

Additional Considerations

The 787 and 747-8 programs highlight the risks inherent in new airplane programs and new derivative airplanes, including, for example, development of the 787-9. In the third quarter of 2011 we launched a variant of the 737 that will feature new more fuel efficient engines the 737 MAX. Costs related to development of new programs and derivative airplanes are expensed as incurred. Costs to produce new airplanes are included in inventory and accounted for using program accounting. Airplane programs have risk for reach-forward losses if our estimated production costs exceed our estimated program revenues for the accounting quantity. Generally commercial airplanes are sold on a firm fixed-price basis with an indexed price escalation clause and are often sold several years before scheduled delivery. Each customer purchase agreement contains an escalation clause to account for the effects of economic fluctuations over the period of time from airplane sale to airplane delivery. A price escalation formula based on pre-defined factors is used to determine the final price of the airplane at the time of customer delivery. While firm fixed-price contracts allow us to benefit from cost savings, they also expose us to the risk of cost overruns. Many new airplanes and derivatives have highly

Table of Contents

complex designs, utilize exotic materials and require extensive coordination and integration with supplier partners. As technical or quality issues arise, such as issues experienced on the 787 and 747-8 programs, we may experience schedule delays and higher costs to complete new programs and derivative airplanes. Additionally, price escalation factors may also impact margins by reducing the estimated price of airplanes delivered in the future. There are other factors that could also result in lower margins or a material charge if a program has or is determined to have reach-forward losses. These include: changes to the program accounting quantity, customer and model mix, production costs and rates, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for derivative airplanes and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.

Boeing Defense, Space & Security

Business Environment and Trends

U.S. Defense Environment Overview In August 2011, the Budget Control Act (the Act) reduced the DoD top line budget by approximately \$490 billion over 10 years starting in fiscal year (FY) 2013. In addition, barring Congressional action, further budget cuts (or sequestration) as outlined in the Act will be implemented in FY13. Sequestration would lead to additional reductions of approximately \$500 billion from the Pentagon's top line budget over the next decade, resulting in aggregate reductions of about \$1 trillion over 10 years. The U.S. DoD has taken the position that such reductions would generate significant operational risks and require the termination of certain procurement programs. Overseas Contingency Operations funding for Iraq and Afghanistan is also expected to decrease due to the reduction of U.S. forces in those countries.

In January 2012, the DoD announced its Defense Strategic Guidance (DSG) partly in response to these budgetary challenges. In response to the proposed across the board budget cuts the DSG proposed that the DoD prioritize the Asia Pacific and Middle East regions, shrink ground forces, maintain nuclear deterrence, and reduce Cold War assets. The DSG also emphasizes the increasing importance of Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR); Cyber; Space; Special Operations; and Unmanned Systems in implementing the DoD's strategic imperatives. Specific program allocations commensurate with this new guidance are expected to be announced in February 2012 as part of the President's FY13 budget request. While the DSG's proposals do incorporate some of the proposed funding reductions, they do not address the full impact that would be associated with sequestration pursuant to the Act.

The budgetary pressures described above are expected to impact our other U.S. customers, including NASA, and the Intelligence community. To meet the needs of the DoD and other U.S. government customers in this challenging environment, BDS offers a balanced portfolio of platforms, services, and solutions that meet operational and fiscal requirements. However, these budgetary pressures are expected to place significant downward pressure on our revenues and margins in 2012.

Target Market Environment Overview The DSG places strong emphasis on developing and acquiring specific capabilities for the U.S. Armed Forces. Capabilities expected to remain a focus of investment or increase per the DoD Strategic Guidance include: C4ISR; Cyber; Space; Special Operations; and Unmanned Systems. BDS has been anticipating this shift in DoD priorities and has aligned its strategy accordingly. As such, we have been making organic investments and pursuing targeted acquisitions to enhance our capabilities and better serve our customers and their emerging needs in these markets.

Table of Contents

International Environment Overview The international market continues to be driven by rapidly evolving security challenges and the need for countries to modernize aging inventories. Western governments are pressured by new threats to security while at the same time dealing with constrained budgets. In Europe, the continuing financial crisis and the growing potential for a double dip recession are causing a contraction in the credit market and forcing governments to institute austerity measures that will negatively impact defense spending in the near term.

The strongest opportunities for 2012 growth of the BDS portfolio will be in the Middle East and Asia Pacific regions where the relative financial strength of key countries coupled with a broad spectrum of evolving threats will result in procurement of defense and security systems. Similar to the domestic environment, BDS offers proven capability, predictable price, and near-term availability that are well suited to the enduring requirements in the international marketplace.

BDS Realignment

Effective January 1, 2011, 2010 and 2009, certain programs were realigned among BDS segments. Business segment data for all periods presented have been adjusted to reflect the realignment.

Operating Results

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 31,976	\$ 31,943	\$ 33,661
% of Total company revenues	47%	50%	49%
Earnings from operations	\$ 3,158	\$ 2,875	\$ 3,298
Operating margins	9.9%	9.0%	9.8%
Research and development	\$ 1,138	\$ 1,136	\$ 1,101
Contractual backlog	\$ 46,354	\$ 48,364	\$ 46,024
Unobligated backlog	\$ 13,687	\$ 16,822	\$ 18,815

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 year, or year-to-year comparisons of revenues and earnings, 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.

Revenues

BDS revenues increased by \$33 million in 2011 compared with 2010, due to higher revenues in the BMA and the GS&S segments, partially offset by lower revenues in the N&SS segment. BDS revenues decreased by \$1,718 million in 2010 compared with 2009, due to lower revenues in all three segments, with the largest decrease in the N&SS segment.

Operating Earnings

BDS operating earnings in 2011 increased by \$283 million compared with 2010 primarily due to higher earnings in the BMA and GS&S segments, partially offset by lower earnings in the N&SS segment. BDS operating earnings in 2010 decreased by \$423 million compared with 2009 primarily due to lower margins in the BMA segment and lower revenues in the N&SS segment.

Table of Contents**Backlog**

Total backlog is comprised of contractual backlog, which represents work we are on contract to perform for which we have received funding, and unobligated backlog, which represents work we are on contract to perform for which funding has not yet been authorized and appropriated. BDS total backlog decreased by 8% in 2011, from \$65,186 million to \$60,041 million, primarily due to funding of existing multi-year contracts and termination for convenience by the U.S. Army of the BCTM program, partially offset by new orders. For further details on the changes between periods, refer to the discussions of the individual segments below.

Additional Considerations

Our 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 lower profit rates or program cancellation if milestones and technical progress are not accomplished. Examples of these programs include Family of Beyond Line-of-Sight Terminals, P-8A and Proprietary programs.

Some of our development programs are contracted on a fixed-price basis. Many of these programs have highly complex designs. As technical or quality issues arise, 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. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues. Examples of our fixed-price development programs include Airborne Early Warning and Control (AEW&C), India P-8I, USAF KC-46A Tanker and commercial and military satellites.

Boeing Military Aircraft**Operating Results**

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 14,947	\$ 14,238	\$ 14,304
% of Total company revenues	22%	22%	21%
Earnings from operations	\$ 1,526	\$ 1,250	\$ 1,527
Operating margins	10.2%	8.8%	10.7%
Research and development	\$ 541	\$ 589	\$ 582
Contractual backlog	\$ 24,085	\$ 25,094	\$ 26,354
Unobligated backlog	\$ 7,155	\$ 8,297	\$ 9,297

Revenues

BMA revenues increased by 5% in 2011. The increase of \$709 million in 2011 was primarily due to higher AEW&C, C-17 and KC-767 International Tanker revenues. AEW&C revenues increased by \$780 million in 2011 due to delivery of the first two Peace Eye aircraft and higher Wedgetail milestone revenues. C-17 revenues increased by \$273 million reflecting favorable mix, partially offset by fewer deliveries. International Tanker revenues increased by \$235 million due to higher deliveries. In

Table of Contents

addition, initial revenues on the USAF KC-46A Tanker were recognized in 2011. Lower volumes on the F-22, F/A-18 and Apache programs combined to reduce revenues by \$613 million. Boeing production deliveries on the F-22 program ended in 2011. There were no new-build Apache deliveries in 2011, however, new-build deliveries are expected to resume in 2012.

BMA revenues decreased by less than 1% in 2010 compared with 2009. Lower revenues in 2010 on the C-17, Apache and T-45 programs were nearly offset by higher Chinook, F/A-18 and AEW&C revenues.

Deliveries of new-build production aircraft, excluding remanufactures and modifications, were as follows:

Years ended December 31,	2011	2010	2009
F/A-18 Models	49	50	49
F-15E Eagle	15	13	13
C-17 Globemaster	13	14	16
CH-47 Chinook	32	20	11
AEW&C	3	4	
KC-767 International Tanker	3	1	2
AH-64 Apache		13	23
T-45TS Goshawk			7
Total new-build production aircraft	115	115	121

Operating Earnings

BMA operating earnings increased by \$276 million in 2011 primarily due to \$236 million of higher earnings on the AEW&C program reflecting the initial Peace Eye deliveries and lower reach-forward loss provisions in 2011 on the AEW&C Wedgetail and Peace Eagle contracts. Lower reach-forward losses of \$49 million on KC-767 International Tanker program and lower research and development also contributed to the earnings improvements. BMA operating earnings decreased by \$277 million in 2010 primarily due to lower deliveries of C-17 aircraft and less favorable pricing and mix on the C-17 program.

Research and Development

The BMA segment continues to focus research and development resources to leverage customer knowledge, technical expertise and system integration of manned and unmanned systems that provide innovative solutions to meet the warfighter's enduring needs. Research and development expense decreased in 2011 primarily due to lower International Tanker development costs. Research and development activities utilize our capabilities in architectures, system-of-systems integration and weapon systems technologies to develop solutions which are designed to better prepare us to meet customers' needs in U.S. and international growth areas such as: military-commercial derivatives, rotorcraft, global strike, missiles and unmanned airborne systems, and surveillance and engagement systems. The products of our research and development support both new manned and unmanned systems as well as enhanced versions of existing fielded products. Investments support vertical integration of our product line in areas such as autonomous operation of unmanned systems, advanced sensors and electronic warfare. These efforts focus on increasing mission effectiveness, interoperability, reliability and reducing the cost of ownership.

Backlog

BMA total backlog in 2011 decreased by 6% from 2010, primarily due to current year deliveries and sales on multi-year contracts awarded in prior years partially offset by BMA's share of the USAF

Table of Contents

contract awards for the KC-46A and low-rate initial production of the P-8A. Total backlog in 2010 decreased 6% from 2009, primarily due to deliveries and sales on multi-year contracts awarded in prior years partially offset by a multi-year contract award on the F/A-18 program.

Additional Considerations**AEW&C**

The AEW&C development program, also known as Wedgetail in Australia, Peace Eagle in Turkey and Peace Eye in the Republic of Korea, consists of 737-700 aircraft outfitted with a variety of command and control and advanced radar systems, some of which have never been installed on an airplane before. A total of five Wedgetail aircraft have been delivered to Australia with initial customer acceptance. Four were delivered in 2010 and one in September 2011. The final Wedgetail aircraft is scheduled for delivery with initial customer acceptance in the first quarter of 2012. Final customer acceptance for all six Wedgetail aircraft is also scheduled to be completed during the first half of 2012. In January 2011, the Peace Eagle program began the formal test phase which is scheduled to conclude in the second half of 2012. The first Peace Eye aircraft was delivered to the Republic of Korea in September 2011 and the second in December 2011. During 2011, 2010 and 2009, we recorded charges increasing the reach-forward losses on the AEW&C programs in Australia and Turkey by \$60 million, \$174 million and \$133 million, respectively. These are advanced and complex fixed-price development programs involving technical challenges at the individual subsystem level and in the overall integration of these subsystems into a reliable and effective operational capability. We believe that the cost and revenue estimates incorporated in the financial statements are appropriate; however, the technical complexity of the programs creates financial risk as additional completion costs may be necessary or scheduled delivery dates could be delayed, either of which could result in lower margins or additional material charges.

C-17

See the discussion of the C-17 program in Note 12 to our Consolidated Financial Statements.

Network & Space Systems**Operating Results**

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 8,673	\$ 9,455	\$ 10,877
% of Total company revenues	13%	15%	16%
Earnings from operations	\$ 690	\$ 711	\$ 839
Operating margins	8.0%	7.5%	7.7%
Research and development	\$ 476	\$ 417	\$ 397
Contractual backlog	\$ 9,056	\$ 9,586	\$ 7,746
Unobligated backlog	\$ 6,424	\$ 8,435	\$ 9,187

Revenues

N&SS revenues decreased 8% in 2011 and 13% in 2010. The decrease of \$782 million in 2011 is primarily due to \$577 million of lower revenues on the BCTM program which was terminated for convenience during 2011. Lower revenues on the Ground-based Midcourse Defense (GMD), SBIInet and Joint Tactical Radio System programs reduced revenues by \$150 million, \$146 million and \$93 million respectively, partially offset by \$150 million of higher sales of Delta inventory to United Launch Alliance (ULA) and \$250 million of higher commercial and civil satellite revenues. The decrease of \$1,422 million in 2010 is primarily due to lower volume on the BCTM and GMD programs.

Table of Contents

Delta launch and new-build satellite deliveries were as follows:

Years ended December 31,	2011	2010	2009
Delta II		1	1
Delta IV		1	1
Commercial and civil satellites	1	3	3
Military satellites	3	1	3

Operating Earnings

N&SS earnings decreased by \$21 million in 2011 and \$128 million in 2010 primarily due to lower revenues and higher research and development costs. N&SS operating earnings include equity earnings of \$194 million, \$189 million and \$164 million from the United Space Alliance joint venture and the ULA joint venture in 2011, 2010 and 2009, respectively.

Research and Development

The N&SS research and development funding remains focused on the development of C4ISR that support a network-enabled architecture approach for our customers. Research and development expense increased in 2011 primarily due to higher expense associated with C4ISR prototypes. We are investing in capabilities to enhance connectivity between existing and new air/ground and maritime platforms, to increase communications availability, utility and bandwidth through more robust space systems, and to leverage innovative networking and ISR concepts. Investments were also made to develop concepts and capabilities related to cyber and security products, as well as the development of next-generation space and intelligence systems. Along with increased funding to support these network-enabled capabilities, we also maintained our investment levels in missile defense, directed energy and advanced exploration systems.

Backlog

N&SS total backlog decreased 14% in 2011 compared with 2010 primarily due to termination for convenience by the U.S. Army of the BCTM program and revenues recognized on multi-year contracts awarded in prior years, partially offset by the contract award for the Missile Defense Agency Development and Sustainment Contract. Total backlog increased 6% in 2010 compared with 2009 primarily due to two commercial satellite contract awards, a multi-year contract award on the International Space Station program and GMD contract awards, partially offset by revenues recognized on the BCTM program.

Additional Considerations**Sea Launch**

See the discussion of the Sea Launch receivables in Note 11 to our Consolidated Financial Statements.

Satellites

See the discussions of Boeing Satellite Systems International, Inc. in Note 21 to our Consolidated Financial Statements.

Table of Contents**Global Services & Support****Operating Results***(Dollars in millions)*

Years ended December 31,	2011	2010	2009
Revenues	\$ 8,356	\$ 8,250	\$ 8,480
% of Total company revenues	12%	13%	12%
Earnings from operations	\$ 942	\$ 914	\$ 932
Operating margins	11.3%	11.1%	11.0%
Research and development	\$ 121	\$ 130	\$ 122
Contractual backlog	\$ 13,213	\$ 13,684	\$ 11,924
Unobligated backlog	\$ 108	\$ 90	\$ 331

Revenues

GS&S revenues increased \$106 million in 2011, an increase of 1%, and decreased \$230 million in 2010, a decrease of 3%, in each case compared with the prior year. The 2011 increase is primarily due to higher revenues on several Integrated Logistics (IL) programs and a Defense & Government services contract, partially offset by lower revenues from Maintenance, Modifications and Upgrades (MM&U) due to the conclusion in 2010 of our KC-10 support program. The 2010 decrease is primarily due to lower revenues on several MM&U programs partially offset by higher revenues on several IL programs.

Operating Earnings

GS&S operating earnings increased by 3% in 2011 primarily due to higher earnings on several IL programs, partially offset by lower earnings on MM&U programs. Operating earnings decreased 2% in 2010 primarily due to lower revenues.

Research and Development

GS&S focused on its investment strategies in the following core businesses: IL, MM&U, Training Systems & Services (TS&S), and Defense & Government Services. Our investments also fund investigation into synergies between existing markets through our Advanced Services organization. This research continues the development and implementation of innovative tools, processes and systems which will deliver affordable readiness solutions to our customers.

Backlog

GS&S total backlog decreased by 3% in 2011 compared with 2010 primarily due to revenues recognized on multi-year contracts awarded in prior years on several IL programs, partially offset by a TS&S contract award on the P-8A program. Total backlog increased by 12% in 2010 compared with 2009 primarily due to the award of the UK LogNEC contract. Backlog also increased due to increases in several IL and MM&U programs, partially offset by decreases in several TS&S programs.

Boeing Capital Corporation**Business Environment and Trends**

BCC's customer financing and investment portfolio at December 31, 2011 totaled \$4,327 million. A substantial portion of BCC's portfolio is concentrated among certain U.S. commercial airline customers. BCC's portfolio is also concentrated by varying degrees across Boeing aircraft product types most notably out-of-production Boeing aircraft such as 717 aircraft.

Table of Contents

BCC provided customer financing of \$239 million and \$72 million during 2011 and 2010. The European sovereign debt crisis poses a financing risk to airlines and may reduce overall levels of commercial aircraft financing. However, we expect the reduction in funding from European commercial banks to be largely offset by increased financing availability from other sources, such as capital markets, lessors, and banks from other regions of the world.

Aircraft values and lease rates are impacted by the number and type of aircraft that are currently out of service. Approximately 2,000 western-built commercial jet aircraft (9.4% of current world fleet) were parked at the end of 2011, including both in-production and out-of-production aircraft types. Of these parked aircraft, approximately 30% are not expected to return to service. At the end of 2010 and 2009, 10.5% and 11.6% of the western-built commercial jet aircraft were parked. Aircraft valuations could decline if significant numbers of additional aircraft, particularly types with relatively few operators, are placed out of service.

Summary Financial Information

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 532	\$ 639	\$ 660
Earnings from operations	\$ 125	\$ 152	\$ 126
Operating margins	23%	24%	19%

Revenues

BCC segment revenues consist principally of lease income from equipment under operating lease and interest from financing receivables and notes. BCC's revenues decreased \$107 million in 2011 compared with 2010 primarily due to lower operating lease income from a smaller portfolio of equipment under operating leases as a result of aircraft returns and lower lease rates on re-leased aircraft and lower interest income on notes receivable resulting from a lower weighted average notes receivable balance and a decrease in the weighted average annual effective interest rate during 2011. The decrease in revenues in 2010 compared with 2009 of \$21 million was primarily due to lower operating lease income from a smaller portfolio of equipment under operating leases as a result of aircraft returns and lower lease rates on re-leased aircraft.

Earnings From Operations

BCC's operating earnings are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Operating earnings decreased by \$27 million in 2011 compared with 2010 primarily due to lower revenues and higher asset impairment expense partially offset by lower interest expense, lower depreciation expense and a reduction in the allowance for losses. The increase in operating earnings in 2010 compared with 2009 was primarily due to lower asset impairment expense and a reduction in the allowance for losses.

Financial Position

The following table presents selected financial data for BCC as of December 31:

<i>(Dollars in millions)</i>	2011	2010
BCC customer financing and investment portfolio	\$ 4,327	\$ 4,694
Valuation allowance as a % of total receivables	2.2%	3.8%
Debt	\$ 3,400	\$ 3,446
Debt-to-equity ratio	6.2-to-1	5.0-to-1

Table of Contents

BCC's customer financing and investment portfolio at December 31, 2011 decreased from December 31, 2010 due to normal portfolio run-off and asset sales, partially offset by the origination of notes receivable and purchase of equipment under operating lease. At December 31, 2011 and 2010, BCC had \$521 million and \$583 million of assets that were held for sale or re-lease, of which \$476 million and \$28 million had either executed term sheets with deposits or firm contracts to be sold or placed on lease. Additionally, aircraft subject to leases with a carrying value of approximately \$111 million are scheduled to be returned off lease during 2012. These aircraft are being remarketed or the leases are being extended and approximately \$13 million of such aircraft had either executed term sheets with deposits or firm contracts as of December 31, 2011.

BCC enters into certain transactions with the Other segment in the form of guarantees and other subsidies that mitigate the effects of certain credit quality or asset impairment issues on the BCC segment.

Bankruptcies

On November 29, 2011, American Airlines, Inc. (American Airlines) filed for Chapter 11 bankruptcy protection. American Airlines retains certain rights by operating under Chapter 11 bankruptcy protection, including the right to reject executory contracts, such as aircraft leases. At December 31, 2011 American Airlines accounted for \$653 million of our customer financing portfolio, including \$362 million recorded by BCC. American Airlines has not rejected any of the leases related to our aircraft. We believe that our customer financing receivables from American Airlines are sufficiently collateralized such that we do not expect to incur losses related to those receivables as a result of the bankruptcy. We continue to monitor the American Airlines bankruptcy for potential impacts on our business.

Restructurings and Restructuring Requests

From time to time, certain customers have requested a restructuring of their transactions with BCC. As of December 31, 2011, BCC has not reached agreement on any restructuring requests that would have a material effect on our earnings, cash flows and/or financial position.

On May 2, 2011, Southwest Airlines Co. (Southwest) completed its acquisition of AirTran Holdings, Inc. AirTran Holdings' successor entity (AirTran) and its subsidiaries represent approximately 26% of our gross customer financing portfolio carrying value, consisting principally of 717 aircraft. AirTran is the largest customer in terms of BCC's segment revenue and customer financing portfolio carrying value. In the fourth quarter of 2011, we revised the contractual terms of our leases with AirTran in conjunction with receiving a full guarantee from Southwest of those lease payment obligations. Revenue and earnings are expected to be approximately \$30 million lower in 2012 due to these lease revisions.

Other Segment

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Revenues	\$ 138	\$ 138	\$ 165
Earnings/(loss) from operations	54	(327)	(152)

Other segment operating earnings for the year ended December 31, 2011 increased by \$381 million compared with 2010 primarily due to a \$241 million reduction in the allowance for losses on AirTran receivables and \$124 million of lower impairment charges related to our customer financing portfolio in 2011.

Table of Contents

Other segment operating loss for the year ended December 31, 2010 increased by \$175 million primarily due to \$144 million of charges related to our customer financing portfolio and higher environmental remediation expenses of \$36 million.

Liquidity and Capital Resources**Cash Flow Summary**

(Dollars in millions)

Years ended December 31,	2011	2010	2009
Net earnings	\$ 4,018	\$ 3,307	\$ 1,312
Non-cash items	2,140	2,679	2,381
Changes in working capital	(2,135)	(3,034)	1,910
Net cash provided by operating activities	4,023	2,952	5,603
Net cash provided/(used) by investing activities	2,369	(4,831)	(3,794)
Net cash (used)/provided by financing activities	(1,700)	(1,962)	4,094
Effect of exchange rate changes on cash and cash equivalents	(2)	(15)	44
Net increase/(decrease) in cash and cash equivalents	4,690	(3,856)	5,947
Cash and cash equivalents at beginning of year	5,359	9,215	3,268
Cash and cash equivalents at end of year	\$ 10,049	\$ 5,359	\$ 9,215

Operating Activities Net cash provided by operating activities increased by \$1,071 million to \$4,023 million during 2011 compared with 2010 primarily due to higher earnings and lower working capital growth as the continued growth in inventory was partially offset by increases in advances from customers and accounts payable. Our investment in gross inventories increased to \$56,499 million at December 31, 2011, up from \$46,738 million at December 31, 2010 while advances and progress billings increased to \$39,755 million at December 31, 2011 compared with \$34,744 million at December 31, 2010. The increase in inventory was driven by higher investments in commercial airplane program inventory, specifically 787 inventory, while higher advances and progress payments reflect increased production rates and commercial airplane orders. We expect inventory to grow at a lower rate in 2012 as additional deliveries offset the ramp up of commercial airplane production and as design changes are incorporated into completed 747 and 787 airplanes. Cash contributions to our pension plans totaled \$531 million and \$35 million in 2011 and 2010.

Investing Activities Cash provided by investing activities totaled \$2,369 million during 2011 compared with \$4,831 million used during 2010, primarily due to lower investments in time deposits during 2011. In 2011, capital expenditures totaled \$1,713 million up from \$1,125 million in 2010. Capital spending in 2011 is higher than 2010 due to the construction of a 787 final assembly factory and related site buildings in North Charleston, South Carolina, higher spending to support commercial airplane production rate increases and capital improvements. We expect capital expenditures to be higher in 2012 due to continued investment to ramp up commercial production rates. Expenditures on acquisitions totaled \$42 million, down from \$932 million in 2010 which included the acquisition of Argon ST, Inc. for \$782 million.

Financing Activities Cash used by financing activities totaled \$1,700 million during 2011 compared with \$1,962 million used during 2010 as proceeds from new borrowings of \$799 million in 2011 more than offset \$314 million of higher repayments of distribution rights financing and \$241 million of higher debt repayments.

In 2011, net proceeds from BCC borrowings amounted to \$745 million and we repaid \$930 million of debt, including repayments of \$798 million of debt held at BCC. At December 31, 2011 and 2010, the

Table of Contents

recorded balance of debt was \$12,371 million and \$12,421 million, of which \$2,353 million and \$948 million were classified as short-term. This includes \$3,400 million and \$3,446 million of debt recorded at BCC, of which \$879 million and \$801 million were classified as short-term.

In 2011 and 2010, we had 350,778 and 494,939 shares transferred to us from employees for tax withholding and did not repurchase any shares through our open market share repurchase program. During 2009, cash used in our open market share repurchase program totaled \$50 million.

Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We and BCC have commercial paper programs that continue to serve as significant potential sources of short-term liquidity. Throughout 2011 and at December 31, 2011, neither we nor BCC had any commercial paper borrowings outstanding. Currently, we have \$4,600 million (\$1,500 million exclusively available for BCC) of unused borrowing on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support possible commercial paper borrowings.

Financing commitments totaled \$15,866 million and \$9,865 million as of December 31, 2011 and December 31, 2010. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required.

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

At December 31, 2011 and 2010, our pension plans were \$16,600 million and \$9,854 million underfunded as measured under GAAP. On an ERISA basis our plans were approximately 99% funded at December 31, 2011 with minimal required contributions in 2012. We expect to make discretionary contributions to our plans of approximately \$1,500 million in 2012. We may be required to make higher contributions to our pension plans in future years.

As of December 31, 2011, 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.

Table of Contents**Contractual Obligations**

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2011, and the estimated timing thereof.

<i>(Dollars in millions)</i>	Total	Less			
		than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt (including current portion)	\$ 12,158	\$ 2,257	\$ 2,563	\$ 1,864	\$ 5,474
Interest on debt ⁽¹⁾	6,433	584	893	737	4,219
Pension and other postretirement cash requirements	27,778	612	4,503	8,827	13,836
Capital lease obligations	235	99	118	17	1
Operating lease obligations	1,311	202	333	180	596
Purchase obligations not recorded on the Consolidated Statements of Financial Position	106,235	36,589	37,591	21,749	10,306
Purchase obligations recorded on the Consolidated Statements of Financial Position	14,153	13,432	699	4	18
Total contractual obligations	\$ 168,303	\$ 53,775	\$ 46,700	\$ 33,378	\$ 34,450

⁽¹⁾ Includes interest on variable rate debt calculated based on interest rates at December 31, 2011. Variable rate debt was approximately 1% of our total debt at December 31, 2011.

Pension and Other Postretirement Benefits Pension cash requirements are based on an estimate of our minimum funding requirements, pursuant to ERISA regulations, although we may make additional discretionary contributions. Estimates of other postretirement benefits are based on both our estimated future benefit payments and the estimated contributions to plans that are funded through trusts.

Purchase Obligations Purchase obligations represent contractual agreements to purchase goods or services that are legally binding; specify a fixed, minimum or range of quantities; specify a fixed, minimum, variable, or indexed price provision; and specify approximate timing of the transaction. Purchase obligations include amounts recorded as well as amounts that are not recorded on the Consolidated Statements of Financial Position. Approximately 6% of the purchase obligations disclosed above are reimbursable to us pursuant to cost-type government contracts.

Purchase Obligations Not Recorded on the Consolidated Statements of Financial Position Production related purchase obligations not recorded on the Consolidated Statements of Financial Position include agreements for inventory procurement, tooling costs, electricity and natural gas contracts, property, plant and equipment, and other miscellaneous production related obligations. The most significant obligation relates to inventory procurement contracts. We have entered into certain significant inventory procurement contracts that specify determinable prices and quantities, and long-term delivery timeframes. In addition, we purchase raw materials on behalf of our suppliers. These agreements require suppliers and vendors to be prepared to build and deliver items in sufficient time to meet our production schedules. The need for such arrangements with suppliers and vendors arises from the extended production planning horizon for many of our products. A significant portion of these inventory commitments is supported by firm contracts and/or has historically resulted in settlement through reimbursement from customers for penalty payments to the supplier should the customer not take delivery. These amounts are also included in our forecasts of costs for program and contract accounting. Some inventory procurement contracts may include escalation adjustments. In these limited cases, we have included our best estimate of the effect of the escalation adjustment in the amounts disclosed in the table above.

Table of Contents

Purchase Obligations Recorded on the Consolidated Statements of Financial Position Purchase obligations recorded on the Consolidated Statements of Financial Position primarily include accounts payable and certain other liabilities including accrued compensation.

Industrial Participation Agreements We have entered into various industrial participation agreements with certain customers outside of the U.S. to facilitate economic flow back and/or technology transfer to their businesses or government agencies as the result of their procurement of goods and/or services from us. These commitments may be satisfied by our placement of direct work or vendor orders for supplies, opportunities to bid on supply contracts, transfer of technology or other forms of assistance. However, in certain cases, our commitments may be satisfied through other parties (such as our vendors) who purchase supplies from our non-U.S. customers. We do not commit to industrial participation agreements unless a contract for sale of our products or services is signed. In certain cases, penalties could be imposed if we do not meet our industrial participation commitments. During 2011, we incurred no such penalties. As of December 31, 2011, we have outstanding industrial participation agreements totaling \$11.1 billion that extend through 2024. Purchase order commitments associated with industrial participation agreements are included in purchase obligations in the table above. To be eligible for such a purchase order commitment from us, a foreign supplier must have sufficient capability to meet our requirements and must be competitive in cost, quality and schedule.

Income Tax Obligations As of December 31, 2011, our net asset for income taxes receivable, including uncertain tax positions, was \$179 million. We are not able to reasonably estimate the timing of future cash flows related to uncertain tax positions. Our income tax matters are excluded from the table above. See Note 5 to our Consolidated Financial Statements.

Commercial Commitments

The following table summarizes our commercial commitments outstanding as of December 31, 2011.

<i>(Dollars in millions)</i>	Total Amounts				
	Committed/Maximum Amount of Loss	Less than 1 year	1-3 years	4-5 years	After 5 years
Standby letters of credit and surety bonds	\$ 6,199	\$ 4,693	\$ 1,064	\$ 304	\$ 138
Commercial aircraft financing commitments	15,866	1,562	3,424	6,114	4,766
Total commercial commitments	\$ 22,065	\$ 6,255	\$ 4,488	\$ 6,418	\$ 4,904

Commercial aircraft financing commitments include commitments to provide financing related to aircraft on order, under option for deliveries or proposed as part of sales campaigns based on estimated earliest potential funding dates. Based on historical experience, we anticipate that we will not be required to fund a significant portion of our financing commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. See Note 12 to our 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 21 to our Consolidated Financial Statements, including our contesting the default termination of the A-12 aircraft, certain employment, labor and benefits litigation, litigation/arbitration involving Boeing Satellite Systems International, Inc. programs and civil securities litigation relating to disclosures concerning the 787 program.

Table of Contents

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of \$758 million at December 31, 2011. For additional information, see Note 12 to our Consolidated Financial Statements.

Income Taxes We have recorded a liability of \$939 million at December 31, 2011 for uncertain tax positions. For further discussion of these contingencies, see Note 5 to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 13 to our Consolidated Financial Statements.

Critical Accounting Policies

Contract Accounting

We use contract accounting to determine revenue, cost of sales, and profit for almost all of our BDS business. Contract accounting involves a judgmental process of estimating the total sales and costs for each contract, which results in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

Due to the size, duration and nature of many of our contracts, the estimation of total sales and costs through completion is complicated and subject to many variables. Total contract sales estimates are based on negotiated contract prices and quantities, modified by our assumptions regarding contract options, change orders, incentive and award provisions associated with technical performance, and price adjustment clauses (such as inflation or index-based clauses). The majority of these contracts are with the U.S. government. Generally the price is based on estimated cost to produce the product or service plus profit. Federal acquisition regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Total contract cost estimates are largely based on negotiated or estimated purchase contract terms, historical performance trends, business base and other economic projections. Factors that influence these estimates include inflationary trends, technical and schedule risk, internal and subcontractor performance trends, business volume assumptions, asset utilization, and anticipated labor agreements.

Revenue and cost estimates for all significant contracts are reviewed and reassessed quarterly. Changes in these estimates could result in recognition of cumulative catch-up adjustments to the contract's inception to date revenues, cost of sales and profit, in the period in which such changes are made. Changes in revenue and cost estimates could also result in a reach-forward loss or an adjustment to a reach-forward loss, which would be recorded immediately as a charge to earnings. For the years ending December 31, 2011, 2010 and 2009 cumulative catch-up adjustments, including reach-forward losses, across all BDS contracts increased operating earnings by \$229 million, \$125 million and \$29 million respectively. Significant adjustments recorded during the three years ended December 31, 2011 relate to reach-forward losses on the AEW&C and the KC-767 International Tanker programs.

Due to the significance of judgment in the estimation process described above, it is likely that materially different cost of sales amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions/estimates, supplier performance, or circumstances may adversely or positively affect financial performance in future periods. If the combined gross margin for all contracts in BDS for all of 2011 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately \$320 million. In addition, a number of our fixed price development contracts are in a reach-forward loss position. Changes to estimated losses are recorded immediately in earnings.

Table of Contents**Program Accounting**

Program accounting requires the demonstrated ability to reliably estimate the relationship of sales to costs for the defined program accounting quantity. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts. The determination of the accounting quantity is limited by the ability to make reasonably dependable estimates of the revenue and cost of existing and anticipated contracts. For each program, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage for the total remaining program to the amount of sales recognized for airplanes delivered and accepted by the customer.

Factors that must be estimated include program accounting quantity, sales price, labor and employee benefit costs, material costs, procured part costs, major component costs, overhead costs, program tooling and other non-recurring costs, and routine warranty costs. Estimation of the accounting quantity for each program takes into account several factors that are indicative of the demand for the particular program, such as firm orders, letters of intent from prospective customers, and market studies. Total estimated program sales are determined by estimating the model mix and sales price for all unsold units within the accounting quantity, added together with the sales prices for all undelivered units under contract. The sales prices for all undelivered units within the accounting quantity include an escalation adjustment that is based on projected escalation rates, consistent with typical sales contract terms. Cost estimates are based largely on negotiated and anticipated contracts with suppliers, historical performance trends, and business base and other economic projections. Factors that influence these estimates include production rates, internal and subcontractor performance trends, customer and/or supplier claims or assertions, asset utilization, anticipated labor agreements, and inflationary trends.

To ensure reliability in our estimates, we employ a rigorous estimating process that is reviewed and updated on a quarterly basis. Changes in estimates are normally recognized on a prospective basis; when estimated costs to complete a program exceed estimated revenues from undelivered units in the accounting quantity, a loss provision is recorded in the current period for the estimated loss on all undelivered units in the accounting quantity.

The program method of accounting allocates tooling and other non-recurring and production costs over the accounting quantity for each program. Because of the higher unit production costs experienced at the beginning of a new program and substantial investment required for initial tooling and other non-recurring costs, new commercial aircraft programs, such as the 787 program, typically have lower margins than established programs.

Due to the significance of judgment in the estimation process described above, it is likely that materially different cost of sales amounts could be recorded if we used different assumptions, or if the underlying circumstances were to change. Changes in underlying assumptions/estimates, supplier performance, or other circumstances may adversely or positively affect financial performance in future periods. If combined cost of sales percentages for commercial airplane programs, excluding the 747 and 787 programs, for all of 2011 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately \$276 million.

The 747 program is in a reach-forward loss position having recorded a total of \$2,037 million of reach-forward losses in 2009 and 2008. Absent changes in the estimated revenues or costs, subsequent deliveries are recorded at zero margin. Reductions to the estimated loss in subsequent periods are spread over all undelivered units in the accounting quantity, whereas increases to the estimated loss are recorded immediately. Any such increases could result in additional charges.

The 787 program has a low single digit profit margin. The cumulative impacts of the production challenges, schedule delays and customer and supplier impacts continue to place significant pressure

Table of Contents

on revenues, costs and the profitability of the 787 program. The scale and duration of the 787 program is such that relatively minor changes in assumptions or variables could have a material effect on our reported results in any period if the program is determined to have a reach-forward loss.

Aircraft Valuation

Allowance for Losses on Customer Financing Receivables The allowance for losses on customer financing receivables (valuation provision) is used to provide for potential impairment of customer financing receivables in the Consolidated Statements of Financial Position. The balance represents an estimate of probable but unconfirmed losses in the customer financing receivables portfolio. The estimate is based on various qualitative and quantitative factors, including historical loss experience, collateral values, and results of individual credit and collectibility reviews. The adequacy of the allowance is assessed quarterly.

Three primary factors influencing the level of our allowance are customer credit ratings, collateral values and default rates. If each customer's credit rating were upgraded or downgraded by one major rating category at December 31, 2011, the allowance would have decreased by \$41 million or increased by \$107 million. If the collateral values were 20% higher or lower at December 31, 2011, the allowance would have decreased by \$24 million or increased by \$21 million. If the cumulative default rates used for each rating category increased or decreased 1%, the allowance would have increased or decreased by \$7 million.

Impairment Review for Assets Under Operating Leases and Held for Re-Lease We evaluate for impairment assets under operating lease or assets held for re-lease when events or changes in circumstances indicate that the expected undiscounted cash flow from the asset may be less than its carrying value. We use various assumptions when determining the expected undiscounted cash flow including the expected future lease rates, lease terms, residual value of the asset, periods in which the asset may be held in preparation for a follow-on lease, maintenance costs, remarketing costs and the remaining economic life of the asset.

When we determine that impairment is indicated for an asset, the amount of impairment expense recorded is the excess of the carrying value over the fair value of the asset.

Had future lease rates on assets evaluated for impairment been 10% lower, we estimate that we would have incurred additional impairment expense of \$10 million for the year ended December 31, 2011.

Residual Values Equipment under operating leases and assets held for re-lease are carried at cost less accumulated depreciation and are depreciated to estimated residual value using the straight-line method over the period that we project we will hold the asset for lease. Estimates used in determining residual values significantly impact the amount and timing of depreciation expense for equipment under operating leases and assets held for re-lease. If the estimated residual values declined 20% at December 31, 2011, we estimate that we would have incurred additional impairment expense of \$19 million for the year ended December 31, 2011, and a future cumulative pre-tax earnings reduction of approximately \$106 million recognized over the remaining depreciable periods, of which approximately \$11 million would be recognized in 2012.

Our investment in sales-type/finance leases includes future minimum lease payments receivable plus the estimated residual value of leased assets less unearned income. Declines in estimated residual value that are deemed other than temporary are recognized in the period in which the decline occurs. If the estimated residual values declined 20% at December 31, 2011, we estimate that we would have reduced pre-tax income by \$48 million for the year ended December 31, 2011.

Table of Contents

Goodwill and Indefinite-Lived Intangible Impairments

Goodwill and other acquired intangible assets with indefinite lives are not amortized but are annually tested for impairment, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. April 1 is our annual testing date. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the related operations. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

We estimate the fair values of the related operations using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future sales and operating costs, based primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements, and general market conditions. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

The cash flow forecasts are adjusted by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation. Therefore, changes in the stock price may also affect the amount of impairment recorded, if any.

We completed our assessment of goodwill as of April 1, 2011 and determined that the estimated fair value of each reporting unit significantly exceeded its corresponding carrying value. Changes in our forecasts or decreases in the value of our common stock could cause book values of certain operations to exceed their fair values which may result in goodwill impairment charges in future periods. A 10% decrease in the estimated fair value of any of our operations would have no impact on the carrying value of goodwill.

As of December 31, 2011 and 2010, we had \$497 million of indefinite-lived intangible assets related to the Jeppesen and Aviall brand and trade names acquired in business combinations. We test these intangibles for impairment by comparing their carrying value to current projections of discounted cash flows attributable to the brand and tradenames. Any excess carrying value over the amount of discounted cash flows represents the amount of the impairment. A 10% decrease in the discounted cash flows would reduce the carrying value of these indefinite-lived intangible assets by less than \$1 million.

Postretirement Plans

The majority of our employees are covered by defined benefit pension plans. All nonunion and some union employees hired after December 31, 2008 are not covered by defined benefit plans. We also have other postretirement benefits consisting principally of healthcare coverage for eligible retirees and qualifying dependents. Accounting rules require an annual measurement of our projected obligations and plan assets. These measurements are based upon several assumptions, including the discount rate, the expected long-term rate of asset return, and medical trend rate (rate of growth for medical costs). Future changes in assumptions or differences between actual and expected outcomes can significantly affect our future annual expense, projected benefit obligations and Shareholders' equity.

Table of Contents

The following table shows the sensitivity of our pension and other postretirement benefit plan liabilities and net periodic cost to a 25 basis point change in the discount rate as of December 31, 2011.

<i>(Dollars in millions)</i>	Change in discount rate Increase 25 bps	Change in discount rate Decrease 25 bps
Pension plans		
Projected benefit obligation	\$ (2,108)	\$ 2,684
Net periodic pension cost	(220)	280
Other postretirement benefit plans		
Accumulated postretirement benefit obligation	(173)	203
Net periodic postretirement benefit cost	(13)	15

Pension expense is also sensitive to changes in the expected long-term rate of asset return. A decrease or increase of 25 basis points in the expected long-term rate of asset return would have increased or decreased 2011 net periodic pension expense by \$124 million. We expect 2012 net periodic pension cost to increase by approximately \$700 million and the portion recognized in earnings for 2012 to increase by approximately \$1.0 billion primarily due to a reduction in the discount rate from 5.3% at December 31, 2010 to 4.4% at December 31, 2011 and amortization of actuarial losses. Absent increases in interest rates, higher asset values and/or higher contributions, net periodic pension cost will increase further in future years.

The assumed medical trend rates have a significant effect on the following year's expense, recorded liabilities and Shareholders' equity. The following table shows the sensitivity of our other postretirement benefit plan liabilities and net periodic cost to a 100 basis point change as of December 31, 2011.

<i>(Dollars in millions)</i>	Change in medical trend rate Increase 100 bps	Change in medical trend rate Decrease 100 bps
Other postretirement benefit plans		
Accumulated postretirement benefit obligation	\$ 642	\$ (572)
Net periodic postretirement benefit cost	127	(111)

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have financial instruments that are subject to interest rate risk, principally fixed-rate debt obligations, and customer financing assets and liabilities. Additionally, BCC uses interest rate swaps with certain debt obligations to manage exposure to interest rate changes. Exposure to this risk is managed by generally matching the profile of BCC's liabilities with that of BCC's assets in relation to amount and terms such as expected maturities and fixed versus floating interest rates. As of December 31, 2011, the impact over the next 12 months of a 100 basis point immediate and sustained rise or fall in interest rates would be a \$10 million increase or a \$1 million decrease to BCC's pre-tax earnings. For purposes of the foregoing sensitivity analysis, we assume that the level of our floating rate assets and debt (including the impact of derivatives) remain unchanged from year-end 2011 and that they are all subject to immediate re-pricing. Historically, we have not experienced material gains or losses on our investments or customer financing assets and liabilities due to interest rate changes.

Based on the portfolio of other Boeing fixed-rate debt, the unhedged exposure to interest rate risk is not material. 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.

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. We use foreign currency forward and option contracts to hedge the price risk associated with firmly committed and forecasted foreign denominated payments and receipts related to our ongoing business. Foreign currency forward and option contracts are sensitive to changes in foreign currency exchange rates. At December 31, 2011, a 10% increase in the exchange rate in our portfolio of foreign currency contracts would have decreased our unrealized gains by \$220 million and a 10% decrease in the exchange rate would have increased our unrealized gains by \$248 million. Consistent with the use of these contracts to neutralize the effect of exchange rate fluctuations, such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying transactions being hedged. When taken together, these forward currency contracts and the offsetting underlying commitments do not create material market risk.

Table of Contents**Item 8. Financial Statements and Supplementary Data****Index to the Consolidated Financial Statements**

	<i>Page</i>
<u>Consolidated Statements of Operations</u>	49
<u>Consolidated Statements of Financial Position</u>	50
<u>Consolidated Statements of Cash Flows</u>	51
<u>Consolidated Statements of Equity</u>	52
<u>Summary of Business Segment Data</u>	54
<u>Note 1 Summary of Significant Accounting Policies</u>	55
<u>Note 2 Acquisitions</u>	65
<u>Note 3 Goodwill and Acquired Intangibles</u>	67
<u>Note 4 Earnings Per Share</u>	68
<u>Note 5 Income Taxes</u>	68
<u>Note 6 Accounts Receivable</u>	71
<u>Note 7 Inventories</u>	71
<u>Note 8 Customer Financing</u>	73
<u>Note 9 Property, Plant and Equipment</u>	75
<u>Note 10 Investments</u>	76
<u>Note 11 Other Assets</u>	77
<u>Note 12 Liabilities, Commitments and Contingencies</u>	77
<u>Note 13 Arrangements with Off-Balance Sheet Risk</u>	80
<u>Note 14 Debt</u>	82
<u>Note 15 Postretirement Plans</u>	83
<u>Note 16 Share-Based Compensation and Other Compensation Arrangements</u>	92
<u>Note 17 Shareholders' Equity</u>	95
<u>Note 18 Derivative Financial Instruments</u>	96
<u>Note 19 Significant Group Concentrations of Risk</u>	98
<u>Note 20 Fair Value Measurements</u>	99
<u>Note 21 Legal Proceedings</u>	100
<u>Note 22 Segment Information</u>	104
<u>Note 23 Quarterly Financial Data (Unaudited)</u>	108
<u>Reports of Independent Registered Public Accounting Firm</u>	109

Table of Contents**The Boeing Company and Subsidiaries****Consolidated Statements of Operations***(Dollars in millions, except per share data)*

Years ended December 31,	2011	2010	2009
Sales of products	\$ 57,401	\$ 52,586	\$ 57,032
Sales of services	11,334	11,720	11,249
Total revenues	68,735	64,306	68,281
Cost of products	(46,642)	(42,194)	(47,639)
Cost of services	(9,097)	(9,489)	(8,726)
Boeing Capital Corporation interest expense	(128)	(160)	(175)
Total costs and expenses	(55,867)	(51,843)	(56,540)
	12,868	12,463	11,741
Income from operating investments, net	278	267	249
General and administrative expense	(3,408)	(3,644)	(3,364)
Research and development expense, net	(3,918)	(4,121)	(6,506)
Gain/(loss) on dispositions, net	24	6	(24)
Earnings from operations	5,844	4,971	2,096
Other income/(expense), net	47	52	(26)
Interest and debt expense	(498)	(516)	(339)
Earnings before income taxes	5,393	4,507	1,731
Income tax expense	(1,382)	(1,196)	(396)
Net earnings from continuing operations	4,011	3,311	1,335
Net gain/(loss) on disposal of discontinued operations, net of taxes of (\$4), \$2 and \$13	7	(4)	(23)
Net earnings	\$ 4,018	\$ 3,307	\$ 1,312
Basic earnings per share from continuing operations	\$ 5.38	\$ 4.50	\$ 1.89
Net gain/(loss) on disposal of discontinued operations, net of taxes	0.01	(0.01)	(0.03)
Basic earnings per share	\$ 5.39	\$ 4.49	\$ 1.86
Diluted earnings per share from continuing operations	\$ 5.33	\$ 4.46	\$ 1.87
Net gain/(loss) on disposal of discontinued operations, net of taxes	0.01	(0.01)	(0.03)
Diluted earnings per share	\$ 5.34	\$ 4.45	\$ 1.84

See notes to the consolidated financial statements on pages 55 108.

Table of Contents

The Boeing Company and Subsidiaries
Consolidated Statements of Financial Position

(Dollars in millions, except per share data)

December 31,	2011	2010
Assets		
Cash and cash equivalents	\$ 10,049	\$ 5,359
Short-term and other investments	1,223	5,158
Accounts receivable, net	5,793	5,422
Current portion of customer financing, net	476	285
Deferred income taxes	29	31
Inventories, net of advances and progress billings	32,240	24,317
Total current assets	49,810	40,572
Customer financing, net	4,296	4,395
Property, plant and equipment, net	9,313	8,931
Goodwill	4,945	4,937
Acquired intangible assets, net	3,044	2,979
Deferred income taxes	5,892	4,031
Investments	1,043	1,111
Other assets, net of accumulated amortization of \$717 and \$630	1,643	1,609
Total assets	\$ 79,986	\$ 68,565
Liabilities and equity		
Accounts payable	\$ 8,406	\$ 7,715
Accrued liabilities	12,239	13,802
Advances and billings in excess of related costs	15,496	12,323
Deferred income taxes and income taxes payable	2,780	607
Short-term debt and current portion of long-term debt	2,353	948
Total current liabilities	41,274	35,395
Accrued retiree health care	7,520	8,025
Accrued pension plan liability, net	16,537	9,800
Non-current income taxes payable	122	418
Other long-term liabilities	907	592
Long-term debt	10,018	11,473
Shareholders' equity:		
Common stock, par value \$5.00 1,012,261,159 shares issued	5,061	5,061
Additional paid-in capital	4,033	3,866
Treasury stock, at cost	(16,603)	(17,187)
Retained earnings	27,524	24,784
Accumulated other comprehensive loss	(16,500)	(13,758)
Total shareholders' equity	3,515	2,766
Noncontrolling interest	93	96
Total equity	3,608	2,862
Total liabilities and equity	\$ 79,986	\$ 68,565

See notes to the consolidated financial statements on pages 55 - 108.

Table of Contents**The Boeing Company and Subsidiaries****Consolidated Statements of Cash Flows***(Dollars in millions)*

Years ended December 31,	2011	2010	2009
Cash flows operating activities:			
Net earnings	\$ 4,018	\$ 3,307	\$ 1,312
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Non-cash items			
Share-based plans expense	186	215	238
Depreciation	1,457	1,510	1,459
Amortization of acquired intangible assets	203	217	207
Amortization of debt discount/premium and issuance costs	15	19	12
Investment/asset impairment charges, net	119	174	151
Customer financing valuation provision	(269)	51	45
(Gain)/loss on disposal of discontinued operations	(11)	6	36
(Gain)/loss on dispositions, net	(24)	(6)	24
Other charges and credits, net	500	512	214
Excess tax benefits from share-based payment arrangements	(36)	(19)	(5)
Changes in assets and liabilities			
Accounts receivable	(292)	8	(391)
Inventories, net of advances and progress billings	(10,012)	(7,387)	(1,525)
Accounts payable	1,164	313	1,141
Accrued liabilities	237	668	1,327
Advances and billings in excess of related costs	3,173	238	(680)
Income taxes receivable, payable and deferred	1,262	822	607
Other long-term liabilities	127	328	(12)
Pension and other postretirement plans	2,126	1,335	1,140
Customer financing, net	(6)	717	104
Other	86	(76)	199
Net cash provided by operating activities	4,023	2,952	5,603
Cash flows investing activities:			
Property, plant and equipment additions	(1,713)	(1,125)	(1,186)
Property, plant and equipment reductions	94	63	27
Acquisitions, net of cash acquired	(42)	(932)	(639)
Contributions to investments	(6,796)	(15,548)	(2,629)
Proceeds from investments	10,757	12,425	1,041
Payments on Sea Launch guarantees			(448)
Reimbursement of Sea Launch guarantee payments		82	40
Receipt of economic development program funds	69	206	
Purchase of distribution rights		(2)	
Net cash provided/(used) by investing activities	2,369	(4,831)	(3,794)
Cash flows financing activities:			
New borrowings	799	41	5,961
Debt repayments	(930)	(689)	(551)
Payments to noncontrolling interests			(40)
Repayments of distribution rights financing	(451)	(137)	
Stock options exercised, other	114	87	10
Excess tax benefits from share-based payment arrangements	36	19	5
Employee taxes on certain share-based payment arrangements	(24)	(30)	(21)
Common shares repurchased			(50)
Dividends paid	(1,244)	(1,253)	(1,220)
Net cash (used)/provided by financing activities	(1,700)	(1,962)	4,094
Effect of exchange rate changes on cash and cash equivalents	(2)	(15)	44

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Net increase/(decrease) in cash and cash equivalents	4,690	(3,856)	5,947
Cash and cash equivalents at beginning of year	5,359	9,215	3,268
Cash and cash equivalents at end of year	\$ 10,049	\$ 5,359	\$ 9,215

See notes to the consolidated financial statements on pages 55 108.

Table of Contents**The Boeing Company and Subsidiaries****Consolidated Statements of Equity**

	Boeing shareholders				Retained Earnings	Accumulated Other Comprehensive Loss		Non-controlling Interest	Total
	Common Stock	Additional Paid-In Capital	Treasury Stock	Share-Value Trust		Loss	Interest		
<i>(Dollars in millions, except per share data)</i>									
Balance January 1, 2009	\$5,061	\$3,456	(\$17,758)	(\$1,203)	\$ 22,675	(\$ 13,525)	\$ 152		(\$ 1,142)
Net earnings					1,312		2		1,314
Unrealized gain on derivative instruments, net of tax of \$(92)						159			159
Unrealized gain on certain investments, net of tax of \$(18)						30			30
Reclassification adjustment for losses realized in net earnings, net of tax of \$(22)						38			38
Currency translation adjustment						154			154
Postretirement liability adjustment, net of tax of \$(717)						1,267			1,267
Comprehensive income									2,962
Share-based compensation and related dividend equivalents		243			(8)				235
ShareValue Trust activity		412		(412)					
Excess tax pools		(1)							(1)
Treasury shares issued for stock options exercised, net		(5)	15						10
Treasury shares issued for other share-based plans, net		(80)	69						(11)
Treasury shares repurchased			(50)						(50)
Cash dividends declared (\$1.68 per share)					(1,233)				(1,233)
Treasury shares contributed to pension plans		(313)	1,813						1,500
Changes in noncontrolling interest		12					(57)		(45)
Balance December 31, 2009	\$5,061	\$3,724	(\$15,911)	(\$1,615)	\$ 22,746	(\$ 11,877)	\$ 97		\$ 2,225
Net earnings					3,307		1		3,308
Unrealized gain on derivative instruments, net of tax of \$(22)						37			37
Reclassification adjustment for gains realized in net earnings, net of tax of \$5						(9)			(9)
Currency translation adjustment						16			16
Postretirement liability adjustment, net of tax of \$1,109						(1,925)			(1,925)
Comprehensive income									1,427
Share-based compensation and related dividend equivalents		235			(24)				211
ShareValue Trust activity		242		(242)					
ShareValue Trust termination			(1,857)	1,857					
Excess tax pools		(234)							(234)
Treasury shares issued for stock options exercised, net		(45)	132						87
Treasury shares issued for other share-based plans, net		(82)	60						(22)
Treasury shares issued for 401(k) contribution		26	389						415
Cash dividends declared (\$1.68 per share)					(1,245)				(1,245)
Changes in noncontrolling interest							(2)		(2)
Balance December 31, 2010	\$5,061	\$ 3,866	(\$17,187)		\$ 24,784	(\$ 13,758)	\$ 96		\$ 2,862

Table of Contents**Consolidated Statements of Equity (continued)**

	Boeing shareholders				Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Common Stock	Additional Paid-In Capital	Treasury Stock	Share- Value Trust				
<i>(Dollars in millions, except per share data)</i>								
Balance December 31, 2010	\$5,061	\$3,866	(\$17,187)		\$24,784	(\$13,758)	\$96	\$2,862
Net earnings					4,018		(1)	4,017
Unrealized loss on derivative instruments, net of tax of \$7						(13)		(13)
Unrealized loss on certain investments, net of tax of \$1						(2)		(2)
Reclassification adjustment for gains realized in net earnings, net of tax of \$9						(16)		(16)
Currency translation adjustment						(35)		(35)
Postretirement liability adjustment, net of tax of \$1,538						(2,676)		(2,676)
Comprehensive income								1,275
Share-based compensation and related dividend equivalents		197				(15)		182
Excess tax pools		20						20
Treasury shares issued for stock options exercised, net		(37)	151					114
Treasury shares issued for other share-based plans, net		(59)	45					(14)
Treasury shares issued for 401(k) contribution		46	388					434
Cash dividends declared (\$1.70 per share)					(1,263)			(1,263)
Changes in noncontrolling interest							(2)	(2)
Balance December 31, 2011	\$ 5,061	\$ 4,033	(\$ 16,603)		\$ 27,524	(\$ 16,500)	\$ 93	\$ 3,608

See notes to the consolidated financial statements on pages 55 - 108.

Table of Contents**The Boeing Company and Subsidiaries****Notes to the Consolidated Financial Statements****Summary of Business Segment Data***(Dollars in millions)*

Years ended December 31,	2011	2010	2009
Revenues:			
Commercial Airplanes	36,171	\$ 31,834	\$ 34,051
Boeing Defense, Space & Security:			
Boeing Military Aircraft	14,947	14,238	14,304
Network & Space Systems	8,673	9,455	10,877
Global Services & Support	8,356	8,250	8,480
Total Boeing Defense, Space & Security	31,976	31,943	33,661
Boeing Capital Corporation	532	639	660
Other segment	138	138	165
Unallocated items and eliminations	(82)	(248)	(256)
Total revenues	\$ 68,735	\$ 64,306	\$ 68,281
Earnings/(loss) from operations:			
Commercial Airplanes	3,495	\$ 3,006	\$ (583)
Boeing Defense, Space & Security:			
Boeing Military Aircraft	1,526	1,250	1,527
Network & Space Systems	690	711	839
Global Services & Support	942	914	932
Total Boeing Defense, Space & Security	3,158	2,875	3,298
Boeing Capital Corporation	125	152	126
Other segment	54	(327)	(151)
Unallocated items and eliminations	(988)	(735)	(594)
Earnings from operations	5,844	4,971	2,096
Other income/(expense), net	47	52	(26)
Interest and debt expense	(498)	(516)	(339)
Earnings before income taxes	5,393	4,507	1,731
Income tax expense	(1,382)	(1,196)	(396)
Net earnings from continuing operations	4,011	3,311	1,335
Net gain/(loss) on disposal of discontinued operations, net of taxes of (\$4), \$2 and \$13	7	(4)	(23)
Net earnings	\$ 4,018	\$ 3,307	\$ 1,312

This information is an integral part of the notes to the consolidated financial statements. See Note 22 for further segment results.

Table of Contents

The Boeing Company and Subsidiaries

Notes to the Consolidated Financial Statements

Years ended December 31, 2011, 2010 and 2009

(Dollars in millions, except per share data)

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The Consolidated 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). These statements include the accounts of all majority-owned subsidiaries and variable interest entities that are required to be consolidated. All significant intercompany accounts and transactions have been eliminated. Certain amounts have been reclassified to conform to the current year presentation.

Use of Estimates

Management makes assumptions and estimates to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Those assumptions and estimates directly affect the amounts reported in the Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are disclosed in these notes to the Consolidated Financial Statements.

Operating Cycle

For classification of certain current assets and liabilities, we use the duration of the related contract or program as our operating cycle, which is generally longer than one year and could exceed three years.

Revenue and Related Cost Recognition

Contract Accounting Contract accounting is used for development and production activities predominantly by Boeing Defense, Space & Security (BDS). The majority of business conducted by BDS is performed under contracts with the U.S. government and other customers that extend over several years. Contract accounting involves a judgmental process of estimating the total sales and costs for each contract resulting in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

Changes in estimated revenues, cost of sales and the related effect to operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percent complete. In 2011, 2010 and 2009 net favorable cumulative catch-up adjustments increased operating earnings by \$229, \$125 and \$29 respectively and EPS by \$0.23, \$0.12 and \$0.03 respectively. Significant adjustments recorded during the three years ended December 31, 2011 relate to reach-forward losses on the AEW&C and the KC-767 International Tanker programs.

We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective. These essentially represent an agreement to do a single project for a single customer, involve interrelated construction activities with substantial common costs, and are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined contracts. Similarly, we may segment a single contract or group of contracts when a clear economic decision has been made during contract negotiations that would produce different rates of profitability for each element or phase of the contract.

Table of Contents

Sales related to fixed-price contracts are recognized as deliveries are made, except for certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, for which sales are recorded based on the attainment of performance milestones. Sales related to contracts in which we are reimbursed for costs incurred plus an agreed upon profit are recorded as costs are incurred. The Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Contracts may contain provisions to earn incentive and award fees if specified targets are achieved. Incentive and award fees that can be reasonably estimated and are probable are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

Program Accounting Our Commercial Airplanes segment predominantly uses program accounting to account for cost of sales related to its programs. Program accounting is applicable to products manufactured for delivery under production-type contracts where profitability is realized over multiple contracts and years. Under program accounting, inventoriable production costs, program tooling and other non-recurring costs, and routine warranty costs are accumulated and charged to cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts. The determination of the accounting quantity is limited by the ability to make reasonably dependable estimates of the revenue and cost of existing and anticipated contracts. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced, and (c) the units' expected sales prices, production costs, program tooling and other non-recurring costs, and routine warranty costs for the total program.

We recognize sales for commercial airplane deliveries as each unit is completed and accepted by the customer. Sales recognized represent the price negotiated with the customer, adjusted by an escalation formula as specified in the customer agreement. The amount reported as cost of sales is determined by applying the estimated cost of sales percentage for the total remaining program to the amount of sales recognized for airplanes delivered and accepted by the customer. Changes in estimated revenues, cost of sales and the related effects on program margins are recognized prospectively except in cases where the program is determined to have a reach-forward loss in which case the loss is recognized in the current period.

Concession Sharing Arrangements We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction to revenue when the related products and services are delivered. The sales concessions incurred may be partially reimbursed by certain suppliers in accordance with concession sharing arrangements. We record these reimbursements, which are presumed to represent reductions in the price of the vendor's products or services, as a reduction in Cost of products.

Spare Parts Revenue We recognize sales of spare parts upon delivery and the amount reported as cost of sales is recorded at average cost.

Service Revenue Service revenue is recognized when the service is performed with the exception of U.S. government service agreements, which are accounted for using contract accounting. Service activities primarily include: support agreements associated with military aircraft and helicopter contracts, ongoing maintenance of International Space Station and Space Shuttle, commercial Delta launches and technical and flight operation services for commercial aircraft. Service revenue and associated cost of sales from pay-in-advance subscription fees are deferred and recognized as services are rendered.

Table of Contents

Financial Services Revenue We record financial services revenue associated with sales-type/finance leases, operating leases, and notes receivable.

Lease and financing revenue arrangements are included in Sales of services on the Consolidated Statements of Operations. For sales-type/finance leases, we record an asset at lease inception. This asset is recorded at the aggregate future minimum lease payments, estimated residual value of the leased equipment, and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed periodically, represent the estimated amount we expect to receive at lease termination from the disposition of the leased equipment. Actual residual values realized could differ from these estimates. Declines in estimated residual value that are deemed other-than-temporary are recognized as Cost of services in the period in which the declines occur.

For operating leases, revenue on leased aircraft and equipment is recorded on a straight-line basis over the term of the lease. Operating lease assets, included in Customer financing, are recorded at cost and depreciated over the period that we project we will hold the asset to an estimated residual value, using the straight-line method. We periodically review our estimates of residual value and recognize forecasted changes by prospectively adjusting depreciation expense.

For notes receivable, notes are recorded net of any unamortized discounts and deferred incremental direct costs. Interest income and amortization of any discounts are recorded ratably over the related term of the note.

Reinsurance Revenue Our wholly-owned insurance subsidiary, Astro Ltd., participates in a reinsurance pool for workers' compensation. The member agreements and practices of the reinsurance pool minimize any participating members' individual risk. Reinsurance revenues were \$144, \$139 and \$122 during 2011, 2010 and 2009, respectively. Reinsurance costs related to premiums and claims paid to the reinsurance pool were \$142, \$123 and \$118 during 2011, 2010 and 2009, respectively. Revenues and costs are presented net in Cost of services in the Consolidated Statements of Operations.

Fleet Support

We provide assistance and services to facilitate efficient and safe aircraft operation to the operators of all our commercial airplane models. Collectively known as fleet support services, these activities and services include flight and maintenance training, field service support, engineering services, and technical data and documents. Fleet support activity begins prior to aircraft delivery as the customer receives training, manuals, and technical consulting support. This activity continues throughout the aircraft's operational life. Services provided after delivery include field service support, consulting on maintenance, repair, and operational issues brought forth by the customer or regulators, updating manuals and engineering data, and the issuance of service bulletins that impact the entire model's fleet. Field service support involves our personnel located at customer facilities providing and coordinating fleet support activities and requests. The costs for fleet support are expensed as incurred as Cost of services.

Research and Development

Research and development includes costs incurred for experimentation, design, testing, and bid and proposal efforts related to government products and services which are expensed as incurred unless the costs are related to certain contractual arrangements with customers. Costs that are incurred pursuant to such contractual arrangements are recorded over the period that revenue is recognized, consistent with our contract accounting policy. We have certain research and development

Table of Contents

arrangements that meet the requirement for best efforts research and development accounting. Accordingly, the amounts funded by the customer are recognized as an offset to our research and development expense rather than as contract revenues.

We have established cost sharing arrangements with some suppliers for the 787 program. Our cost sharing arrangements state that the supplier contributions are for reimbursements of costs we incur for experimentation, basic design, and testing activities during the 787 development. In each arrangement, we retain substantial rights to the 787 part or component covered by the arrangement. The amounts received from these cost sharing arrangements are recorded as a reduction to research and development expenses since we have no obligation to refund any amounts received per the arrangements regardless of the outcome of the development efforts. Specifically, under the terms of each agreement, payments received from suppliers for their share of the costs are typically based on milestones and are recognized as earned when we achieve the milestone events and no ongoing obligation on our part exists. In the event we receive a milestone payment prior to the completion of the milestone, the amount is classified in Accrued liabilities until earned.

Share-Based Compensation

We provide various forms of share-based compensation to our employees. For awards settled in shares, we measure compensation expense based on the grant-date fair value net of estimated forfeitures. For awards settled in cash, or that may be settled in cash, we measure compensation expense based on the fair value at each reporting date net of estimated forfeitures. The expense is recognized over the requisite service period, which is generally the vesting period of the award.

Income Taxes

Provisions for federal, state, and non-U.S. income taxes are calculated on reported Earnings before income taxes based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions.

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Tax-related interest and penalties are classified as a component of Income tax expense.

Postretirement Plans

The majority of our employees are covered by defined benefit pension plans. All nonunion and some union employees hired after December 31, 2008 are not covered by defined benefit plans. We also provide postretirement benefit plans other than pensions, consisting principally of health care coverage to eligible retirees and qualifying dependents. Benefits under the pension and other postretirement benefit plans are generally based on age at retirement and years of service and, for some pension plans, benefits are also based on the employee's annual earnings. The net periodic cost of our pension and other postretirement plans is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset

Table of Contents

return, and medical trend (rate of growth for medical costs). A portion of net periodic pension and other postretirement income or expense is not recognized in net earnings in the year incurred because it is allocated to production as product costs, and reflected in inventory at the end of a reporting period. Actuarial gains and losses, which occur when actual experience differs from actuarial assumptions, are reflected in Shareholders' equity (net of taxes). If actuarial gains and losses exceed ten percent of the greater of plan assets or plan liabilities we amortize them over the average future service period of employees. The funded status of our pension and postretirement plans is reflected on the Consolidated Statements of Financial Position.

Postemployment Plans

We record a liability for postemployment benefits, such as severance or job training, when payment is probable, the amount is reasonably estimable, and the obligation relates to rights that have vested or accumulated.

Environmental Remediation

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. We routinely assess, based on in-depth studies, expert analyses and legal reviews, our contingencies, obligations, and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties and/or insurance carriers. Our policy is to accrue and charge to current expense identified exposures related to environmental remediation sites when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of the liability is based on our best estimate or the low end of a range of reasonably possible exposure for investigation, cleanup, and monitoring costs to be incurred. Estimated remediation costs are not discounted to present value as the timing of payments cannot be reasonably estimated. We may be able to recover a portion of the remediation costs from insurers or other third parties. Such recoveries are recorded when realization of the claim for recovery is deemed probable.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments, such as commercial paper, time deposits, and other money market instruments, which have original maturities of three months or less. We aggregate our cash balances by bank where conditions for right of set-off are met, and reclassify any negative balances, consisting mainly of uncleared checks, to Accounts payable. Negative balances reclassified to Accounts payable were \$132 and \$209 at December 31, 2011 and 2010.

Inventories

Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling and other non-recurring costs, and applicable overhead, which includes fringe benefits, production related indirect and plant management salaries and plant services, not in excess of estimated net realizable value. To the extent a material amount of such costs are related to an abnormal event or are fixed costs not appropriately attributable to our programs or contracts, they are expensed in the current period rather than inventoried. Inventoried costs include amounts relating to programs and contracts with long-term production cycles, a portion of which is not expected to be realized within one year. Included in inventory for federal government contracts is an allocation of allowable costs related to manufacturing process reengineering.

Commercial aircraft programs inventory includes deferred production costs. Deferred production costs represent actual costs incurred for production of early units that exceed the estimated average cost of

Table of Contents

all units in the program accounting quantity. Higher production costs are experienced at the beginning of a new or derivative airplane program. Units produced early in a program require substantially more effort (labor and other resources) than units produced later in a program because of volume efficiencies and the effects of learning. We expect that these deferred costs will be fully recovered when all units included in the accounting quantity are delivered as the expected unit cost for later deliveries is below the estimated average cost of all units in the program.

The determination of net realizable value of long-term contract costs is based upon quarterly reviews that estimate costs to be incurred to complete all contract requirements. When actual contract costs and the estimate to complete exceed total estimated contract revenues, a loss provision is recorded. The determination of net realizable value of commercial aircraft program costs is based upon quarterly program reviews that estimate revenue and cost to be incurred to complete the program accounting quantity. When estimated costs to complete exceed estimated program revenues to go, a program loss provision is recorded in the current period for the estimated loss on all undelivered units in the accounting quantity.

Used aircraft purchased by the Commercial Airplanes segment and general stock materials are stated at cost not in excess of net realizable value. See Aircraft Valuation within this Note for a discussion of our valuation of used aircraft. Spare parts inventory is stated at lower of average unit cost or market. We review our commercial spare parts and general stock materials quarterly to identify impaired inventory, including excess or obsolete inventory, based on historical sales trends, expected production usage, and the size and age of the aircraft fleet using the part. Impaired inventories are charged to Cost of products in the period the impairment occurs.

Included in inventory for commercial aircraft programs are amounts paid or credited in cash, or other consideration to certain airline customers, that are referred to as early issue sales consideration. Early issue sales consideration is recognized as a reduction to revenue when the delivery of the aircraft under contract occurs. If an airline customer does not perform and take delivery of the contracted aircraft, we believe that we would have the ability to recover amounts paid. However, to the extent early issue sales consideration exceeds advances and is not considered to be otherwise recoverable, it would be written off in the current period.

We net advances and progress billings on long-term contracts against inventory in the Consolidated Statements of Financial Position. Advances and progress billings in excess of related inventory are reported in Advances and billings in excess of related costs.

Precontract Costs

We may, from time to time, incur costs to begin fulfilling the statement of work under a specific anticipated contract that we are still negotiating with a customer. If we determine it is probable that we will be awarded the specific anticipated contract, then we capitalize the precontract costs we incur, excluding start-up costs which are expensed as incurred. Capitalized precontract costs are included in Inventories, net of advances and progress billings, in the accompanying Consolidated Statements of Financial Position. Should the contract not be awarded or otherwise determined to no longer be probable of award, the capitalized costs would be written off.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, less accumulated depreciation and are depreciated principally over the following estimated useful lives: new buildings and land improvements, from 10 to 40 years; and new machinery and equipment, from 3 to 20 years. The principal methods of depreciation are as follows: buildings and land improvements,

Table of Contents

150% declining balance; and machinery and equipment, sum-of-the-years digits. Capitalized internal use software is included in Other assets and amortized using the straight line method over five years. We periodically evaluate the appropriateness of remaining depreciable lives assigned to long-lived assets, including assets that may be subject to a management plan for disposition.

Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Long-lived assets held for use are subject to an impairment assessment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

Asset Retirement Obligations

We record all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts are not material.

We also have known conditional asset retirement obligations, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, these obligations have not been recorded in the Consolidated Financial Statements. A liability for these obligations will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value. In addition, there may be conditional asset retirement obligations that we have not yet discovered (e.g. asbestos may exist in certain buildings but we have not become aware of it through the normal course of business), and therefore, these obligations also have not been included in the Consolidated Financial Statements.

Goodwill and Other Acquired Intangibles

Goodwill and other acquired intangible assets with indefinite lives are not amortized, but are tested for impairment annually and when an event occurs or circumstances change such that it is more likely than not that an impairment may exist. Our annual testing date is April 1.

We test goodwill for impairment by first comparing the carrying value of net assets to the fair value of the related operations. If the fair value is determined to be less than carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

Indefinite-lived intangibles consist of brand and tradenames acquired in business combinations. We test these intangibles for impairment by comparing their carrying value to current projections of discounted cash flows attributable to the brand and tradenames. Any excess carrying value over the amount of discounted cash flows represents the amount of the impairment.

Our finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: developed technology, from 4 to 14 years; product know-how, from 3 to 30 years; customer base, from 3 to 19 years; distribution rights, from 3 to 30 years; and other, from 1 to 32 years. We evaluate the potential impairment of finite-lived acquired intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

Table of Contents

Investments

Time deposits are held-to-maturity investments that are carried at cost.

The equity method of accounting is used to account for investments for which we have the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of an investee of between 20% and 50%.

We classify investment income and loss on our Consolidated Statements of Operations based on whether the investment is operating or non-operating in nature. Operating investments align strategically and are integrated with our operations. Earnings from operating investments, including our share of income or loss from equity method investments, dividend income from certain cost method investments, and any impairments or gain/loss on the disposition of these investments, are recorded in Income from operating investments, net. Non-operating investments are those we hold for non-strategic purposes. Earnings from non-operating investments, including interest and dividends on marketable securities, and any impairments or gain/loss on the disposition of these investments are recorded in Other income/(expense), net.

Derivatives

All derivative instruments are recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them. We use derivative instruments to principally manage a variety of market risks. For derivatives designated as hedges of the exposure to changes in fair value of the recognized asset or liability or a firm commitment (referred to as fair value hedges), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to include in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value. For our cash flow hedges, the effective portion of the derivative's gain or loss is initially reported in Shareholders' equity (as a component of Accumulated other comprehensive loss) and is subsequently reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of the gain or loss of a cash flow hedge is reported in earnings immediately. We also hold certain instruments for economic purposes that are not designated for hedge accounting treatment. For these derivative instruments, the changes in their fair value are also recorded in earnings immediately.

Aircraft Valuation

Used aircraft under trade-in commitments and aircraft under repurchase commitments In conjunction with signing a definitive agreement 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. Additionally, we have entered into contingent repurchase commitments with certain customers wherein we agree to repurchase the Sale Aircraft at a specified price, generally 10 to 15 years after delivery of the Sale Aircraft. Our repurchase of the Sale Aircraft is contingent upon a future, mutually acceptable agreement for the sale of additional new aircraft. If we execute an agreement for the sale of additional new aircraft, and if the customer exercises its right to sell the Sale Aircraft to us, a contingent repurchase commitment would become a trade-in commitment. Our historical experience is that contingent repurchase commitments infrequently become trade-in commitments.

Table of Contents

All trade-in commitments at December 31, 2011 and 2010 were solely attributable to Sale Aircraft and did not originate from contingent repurchase commitments. Exposure related to trade-in commitments may take the form of:

- (1) adjustments to revenue for the difference between the contractual trade-in price in the definitive agreement and our best estimate of the fair value of the trade-in aircraft as of the date of such agreement, which would be recorded in Inventory and recognized upon delivery of the Sale Aircraft, and/or
- (2) charges to cost of products for adverse changes in the fair value of trade-in aircraft that occur subsequent to signing of a definitive agreement for Sale Aircraft but prior to the purchase of the used trade-in aircraft. Estimates based on current aircraft values would be included in Accrued liabilities.

The fair value of trade-in aircraft is determined using aircraft-specific data such as model, age and condition, market conditions for specific aircraft and similar models, and multiple valuation sources. This process uses our assessment of the market for each trade-in aircraft, which in most instances begins years before the return of the aircraft. There are several possible markets in which we continually pursue opportunities to place used aircraft. These markets include, but are not limited to, the resale market, which could potentially include the cost of long-term storage; the leasing market, with the potential for refurbishment costs to meet the leasing customer's requirements; or the scrap market. Trade-in aircraft valuation varies significantly depending on which market we determine is most likely for each aircraft. On a quarterly basis, we update our valuation analysis based on the actual activities associated with placing each aircraft into a market. This quarterly valuation process yields results that are typically lower than residual value estimates by independent sources and tends to more accurately reflect results upon the actual placement of the aircraft.

Used aircraft acquired by the Commercial Airplanes segment are included in Inventories at the lower of cost or market as it is our intent to sell these assets. To mitigate costs and enhance marketability, aircraft may be placed on operating lease. While on operating lease, the assets are included in Customer financing.

Assets under operating lease, assets held for sale or re-lease and collateral underlying receivables Customer financing includes operating lease equipment, notes receivables, and sales-type/finance leases. Sales-type/finance leases are treated as receivables, and allowances for losses are established as necessary.

We assess the fair value of the assets we own, including equipment under operating leases, assets held for sale or re-lease, and collateral underlying receivables, to determine if their fair values are less than the related assets' carrying values. Differences between carrying values and fair values of sales-type/finance leases and notes and other receivables, as determined by collateral value, are considered in determining the allowance for losses on receivables.

We use a median calculated from published collateral values from multiple third-party aircraft value publications based on the type and age of the aircraft to determine the fair value of aircraft. Under certain circumstances, we apply judgment based on the attributes 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 outside publications.

Impairment review for assets under operating leases and held for sale or re-lease We evaluate for impairment assets under operating lease or assets held for sale or re-lease when events or changes in circumstances indicate that the expected undiscounted cash flow from the asset may be less than the carrying value. We use various assumptions when determining the expected

Table of Contents

undiscounted cash flow, including our intentions for how long we will hold an asset subject to operating lease before it is sold, the expected future lease rates, lease terms, residual value of the asset, periods in which the asset may be held in preparation for a follow-on lease, maintenance costs, remarketing costs and the remaining economic life of the asset. We record assets held for sale at the lower of carrying value or fair value less costs to sell.

When we determine that impairment is indicated for an asset, the amount of impairment expense recorded is the excess of the carrying value over the fair value of the asset.

Allowance for losses on customer financing receivables We record the potential impairment of customer financing receivables in our portfolio in a valuation account, the balance of which is an accounting estimate of probable but unconfirmed losses in the receivables portfolio. The allowance for losses on receivables relates to two components of receivables: (a) receivables that are evaluated individually for impairment and (b) all other receivables.

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 of the receivable agreement, without regard to any subsequent restructurings. Factors considered in assessing collectibility include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy. We determine a specific impairment allowance based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral we would expect to realize.

We review the adequacy of the allowance attributable to the remaining receivables (after excluding receivables subject to a specific impairment allowance) by assessing both the collateral exposure and the applicable cumulative default rate. Collateral exposure for a particular receivable is the excess of the carrying value of the receivable over the fair value of the related collateral. A receivable with an estimated fair value in excess of the carrying value is considered to have no collateral exposure. The applicable cumulative default rate is determined using two components: customer credit ratings and weighted average remaining contract term. Internally assigned credit ratings, our credit quality indicator, are determined for each customer in the portfolio. Those ratings are updated based upon public information and information obtained directly from our customers.

We have entered into agreements with certain customers that would entitle us to look beyond the specific collateral underlying the receivable for purposes of determining the collateral exposure as described above. Should the proceeds from the sale of the underlying collateral asset resulting from a default condition be insufficient to cover the carrying value of our receivable (creating a shortfall condition), these agreements would, for example, permit us to take the actions necessary to sell or retain certain other assets in which the customer has an equity interest and use the proceeds to cover the shortfall.

Each quarter we review customer credit ratings, published historical credit default rates for different rating categories, and multiple third-party aircraft value publications as a basis to validate the reasonableness of the allowance for losses on receivables. There can be no assurance that actual results will not differ from estimates or that the consideration of these factors in the future will not result in an increase or decrease to the allowance for losses on receivables.

Warranties

In conjunction with certain product sales, we provide warranties that cover factors such as non-conformance to specifications and defects in material and design. The majority of our warranties are issued by our Commercial Airplanes segment. Generally, aircraft sales are accompanied by a three

Table of Contents

to four-year standard warranty for systems, accessories, equipment, parts, and software manufactured by us or manufactured to certain standards under our authorization. These warranties are included in the programs estimate at completion. On occasion we have made commitments beyond the standard warranty obligation to correct fleet-wide major issues of a particular model, resulting in additional accrued warranty expense. Warranties issued by our BDS segments principally relate to sales of military aircraft and weapons hardware and are included in the contract cost estimates. These sales are generally accompanied by a six to twelve-month warranty period and cover systems, accessories, equipment, parts, and software manufactured by us to certain contractual specifications. Estimated costs related to standard warranties are recorded in the period in which the related product sales occur. The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products delivered times the average of historical monthly warranty payments, as well as additional amounts for certain major warranty issues that exceed a normal claims level. Estimated costs of these additional warranty issues are considered changes to the initial liability estimate.

We provide guarantees to certain commercial airplane customers which include compensation provisions for failure to meet specified aircraft performance targets. We account for these performance guarantees as warranties. The estimated liability for these warranties is based on known and anticipated operational characteristics and forecasted customer operation of the aircraft relative to contractually specified performance targets, and anticipated settlements when contractual remedies are not specified. Estimated payments are recorded as a reduction of revenue at delivery of the related aircraft. We have agreements that require certain suppliers to compensate us for amounts paid to customers for failure of supplied equipment to meet specified performance targets. Claims against suppliers under these agreements are included in Inventories and recorded as a reduction in Cost of products at delivery of the related aircraft. These performance warranties and claims against suppliers are included in the programs estimate at completion.

Supplier Penalties

We record an accrual for supplier penalties when an event occurs that makes it probable that a supplier penalty will be incurred and the amount is reasonably estimable. Until an event occurs, we fully anticipate accepting all products procured under production-related contracts.

Guarantees

We record a liability in Accrued liabilities for the fair value of guarantees that are issued or modified after December 31, 2002. For a residual value guarantee where we received a cash premium, the liability is equal to the cash premium received at the guarantee's inception. For credit and performance guarantees, the liability is equal to the present value of the expected loss. We determine the expected loss by multiplying the creditor's default rate by the guarantee amount reduced by the expected recovery, if applicable, for each future period the credit or performance guarantee will be outstanding. If at inception of a guarantee, we determine there is a probable related contingent loss, we will recognize a liability for the greater of (a) the fair value of the guarantee as described above or (b) the probable contingent loss amount.

Note 2 Acquisitions

Argon ST, Inc.

On August 5, 2010, we acquired Argon ST, Inc. (Argon) for \$782, net of cash acquired. Argon develops command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) and, combat systems. The acquisition was part of our strategy to expand our capabilities to address the C4ISR, cyber and intelligence markets. Argon's results of operations from the acquisition

Table of Contents

date are included in the Network & Space Systems (N&SS) segment. Goodwill has been recorded in N&SS, Global Services & Support (GS&S) and Boeing Military Aircraft (BMA) segments.

The final allocation of the purchase price is as follows:

Accounts receivable	\$ 66
Inventory	47
Property, plant and equipment	32
Goodwill	549
Finite-lived intangible assets ⁽¹⁾	216
Other assets	1
Accounts payable	(14)
Accrued liabilities	(69)
Advances and billings in excess of related costs	(8)
Deferred income taxes	(38)
Total net assets acquired	782

⁽¹⁾ Finite-lived intangible assets have a weighted average amortization period of 13 years and include \$133 of Developed technology and \$69 of Customer base.

Vought Aircraft Industries Inc.

On July 30, 2009, we acquired the business, assets and operations of Vought Aircraft Industries, Inc. s (Vought) 787 business conducted at North Charleston, South Carolina. In connection with the acquisition, we paid cash consideration of \$590 and released Vought from its obligation to repay amounts of \$416 previously advanced by us. Vought s 787 business produces aft fuselage sections, including the fabrication, assembly and systems installation, for the 787 program. The acquisition of Vought strengthens our 787 program and bolsters our capability to develop and produce large composite structures. The results of operations from the acquisition date are included in our Commercial Airplanes segment.

The final allocation of the purchase price is as follows:

Inventory	\$ 241
Property, plant and equipment	170
Goodwill	606
Finite-lived intangible assets ⁽¹⁾	49
Accounts payable	(24)
Accrued liabilities	(31)
Other long-term liabilities	(5)
Total net assets acquired	\$ 1,006

⁽¹⁾ The weighted average amortization period for finite-lived intangible assets is 17 years.

Table of Contents**Note 3 Goodwill and Acquired Intangibles**

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2011, 2010 and 2009 were as follows:

	Commercial Airplanes	Boeing Military Aircraft	Network & Space Systems	Global Services & Support	Total
Balance at January 1, 2009	\$1,449	\$ 848	\$ 1,084	\$266	\$3,647
Vought acquisition	606				606
Goodwill adjustments	28		18	20	66
Balance at December 31, 2009	\$ 2,083	\$ 848	\$ 1,102	\$ 286	\$ 4,319
Argon acquisition		193	345	11	549
Other acquisitions	18		14	4	36
Goodwill adjustments	9			24	33
Balance at December 31, 2010	\$ 2,110	\$ 1,041	\$ 1,461	\$ 325	\$ 4,937
Acquisitions			16		16
Goodwill adjustments	(4)		(4)		(8)
Balance at December 31, 2011	\$ 2,106	\$ 1,041	\$ 1,473	\$ 325	\$ 4,945

As of December 31, 2011 and 2010, we had indefinite-lived intangible assets with carrying amounts of \$497 and \$499 relating to tradenames.

The gross carrying amounts and accumulated amortization of our acquired finite-lived intangible assets were as follows at December 31:

	2011		2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Distribution rights	\$ 1,915	\$ 295	\$ 1,661	\$ 211
Product know-how	507	144	499	116
Customer base	606	253	603	208
Developed technology	833	684	834	653
Other	195	133	193	122
Total	\$ 4,056	\$ 1,509	\$ 3,790	\$ 1,310

Amortization expense for acquired finite-lived intangible assets for the years ended December 31, 2011 and 2010 was \$203 and \$217. Estimated amortization expense for the five succeeding years is as follows: 2012 \$209; 2013 \$189; 2014 \$183; 2015 \$171 and 2016 \$155.

Non-cash investing and financing transactions related to acquired finite-lived intangibles during 2011 and 2010 were \$256 and \$62. Total acquired finite-lived intangibles of \$335 and \$529 remain unpaid as of December 31, 2011 and 2010.

Table of Contents**Note 4 Earnings Per Share**

The weighted-average number of shares outstanding used to compute earnings per share are as follows:

(Shares in millions)

Years ended December 31,	2011	2010	2009
Weighted average shares outstanding	744.1	735.0	705.9
Participating securities	2.5	3.1	3.7
Basic weighted average shares outstanding	746.6	738.1	709.6
Dilutive potential common shares	6.5	6.2	3.8
Diluted weighted average shares outstanding	753.1	744.3	713.4

Basic earnings per share is calculated by the sum of (1) net earnings less declared dividends and dividend equivalents related to share-based compensation divided by the basic weighted average shares outstanding and (2) declared dividends and dividend equivalents related to share-based compensation divided by the weighted average shares outstanding.

The weighted average number of shares outstanding, included in the table below, were excluded from the computation of diluted earnings per share because the average market price did not exceed the exercise/threshold price. However, these shares may be dilutive potential common shares in the future.

(Shares in millions)

Years ended December 31,	2011	2010	2009
Stock options	21.1	14.9	16.8
Performance Awards	1.5	3.8	2.0
ShareValue Trust			13.2
Performance Shares			0.8
Stock Units			0.2

Note 5 Income Taxes

The components of earnings before income taxes were:

Years ended December 31,	2011	2010	2009
U.S.	\$ 5,083	\$ 4,310	\$ 1,638
Non-U.S.	310	197	