

BOEING CO
Form 10-K
February 10, 2016

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, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-442

THE BOEING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

91-0425694

State or other jurisdiction of
incorporation or organization

(I.R.S. Employer Identification No.)

100 N. Riverside Plaza, Chicago, IL
(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

New York Stock Exchange

(Title of each class)

(Name of each exchange on which registered)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 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

Accelerated filer

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

Smaller reporting company

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

As of June 30, 2015, there were 681,067,191 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 \$94.5 billion.

The number of shares of the registrant's common stock outstanding as of February 4, 2016 was 662,503,822.

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, 2015.

THE BOEING COMPANY

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PART I

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 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 (BCC).

The unallocated activities of Engineering, Operations & Technology (EO&T) and Shared Services Group (SSG), Corporate and intercompany guarantees provided to BCC are included in Unallocated items, eliminations and other. 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 global passenger and cargo requirements of 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 787-10 and 737 MAX derivatives and the 777X programs. The Commercial Airplanes segment also offers aviation services support, aircraft modifications, spare parts, training, maintenance documents and technical advice to commercial and government customers worldwide.

Defense, Space & Security

Our BDS operations principally involve research, development, production, modification and support of the products and related systems as described below. BDS’ primary customer is the United States Department of Defense (U.S. DoD) with approximately 62% of BDS 2015 revenues being derived from this customer (excluding foreign military sales through the U.S. government). Other significant BDS revenues were derived from the National Aeronautics and Space Administration (NASA), international defense markets, civil markets and commercial satellite markets. BDS consists of three capabilities-driven businesses: BMA, N&SS and 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 aircraft and weapons systems for global strike, including fighter aircraft and missile systems; vertical lift, including rotorcraft and tilt-rotor aircraft; autonomous systems; and mobility, surveillance and engagement, including command and control, battle management, airborne, anti-

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submarine, transport and tanker aircraft. The major programs in this segment include for global strike: EA-18G Growler Airborne Electronic Attack, F/A-18E/F Super Hornet, F-15 Strike Eagle and Joint Direct Attack Munition; for vertical lift: CH-47 Chinook, AH-64 Apache, and V-22 Osprey; for autonomous systems: ScanEagle and Integrator; and for mobility, surveillance and engagement: C-17 Globemaster III, P-8 programs, and KC-46A Tanker. C-17 Globemaster III production ended in 2015.

Network & Space Systems Segment

This segment is engaged in the research, development, production and modification of the following products and related services: electronics and information solutions, including command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR), cyber and information solutions, and intelligence systems; strategic missile and defense systems; space and intelligence systems, including satellites and commercial satellite launch vehicles; and space exploration. The major programs in this segment include for strategic missile and defense systems: Ground-based Midcourse Defense (GMD); for space and intelligence systems: commercial, civil and military satellites; and for space exploration: Space Launch System (SLS), Commercial Crew and International Space Station. This segment also includes our joint venture operations related to United Launch Alliance.

Global Services & Support Segment

This segment provides customers with mission readiness through total support solutions. Our global services business sustains aircraft and systems with a full spectrum of products and services through integrated logistics, including supply chain management and engineering support; maintenance, modification and upgrades for aircraft; and training systems and government services, including pilot and maintenance training. GS&S international operations include Boeing Defence U.K. Ltd., and Boeing Defence Australia, as well as Alsalam Aircraft Company, Aviation Training International, Ltd and Boeing Sikorsky International Services LLC, joint ventures.

Integrated logistics comprises an integrated array of services that address the complete life cycle of aircraft and systems. Major programs supported include the F/A-18E/F, F-15, AH-64 Apache and CH-47 Chinook for domestic and international customers.

Aircraft modernization and sustainment is performed at centers throughout the United States and around the world, providing rapid cycle time and aircraft services for military customers on a wide variety of BDS and non-BDS platforms. Major support is performed as part of the C-17 Globemaster III Integrated Sustainment Program. Aircraft programs include the Airborne Early Warning and Control (AEW&C) Peace Eagle contract with Turkey and Airborne Warning and Control Systems (AWACS) program. We delivered the final AEW&C aircraft to Turkey in 2015.

Training systems and government services comprise a full range of training capabilities for domestic and international customers, including the design and development of trainers for multiple aircraft platforms and logistics and asset management solutions.

Boeing Capital Segment

BCC seeks to ensure that Boeing customers have the financing they need to buy and take delivery of their Boeing product and manages overall financing exposure. BCC's portfolio consists of equipment under operating leases, finance leases, notes and other receivables, assets held for sale or re-lease and investments.

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Financial and Other Business Information

See the Summary of Business Segment Data and Note 21 to our Consolidated Financial Statements for financial information, including revenues and earnings from operations, for each of our business segments.

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 21 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, net amounted to \$3.3 billion, \$3.0 billion and \$3.1 billion in 2015, 2014 and 2013, respectively.

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 \$286 million, \$289 million and \$285 million in 2015, 2014 and 2013, respectively.

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Employees

Total workforce level at December 31, 2015 was approximately 161,400. As of December 31, 2015, our principal collective bargaining agreements were with the following unions:

Union	Percent of our Employees Represented	Status of the Agreements with Major Union
The International Association of Machinists and Aerospace Workers (IAM)	22%	We have two major agreements; one expiring in June 2022 and one in September 2024.
The Society of Professional Engineering Employees in Aerospace (SPEEA)	13%	We have two major agreements expiring in October 2016.
The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)	1%	We have one major agreement expiring in October 2022.

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 spans the life cycle of the airplane: aircraft acquisition, readying for service, maintenance and engineering, enhancing and upgrading, and transitioning to the next model - as well as the daily cycle of gate-to-gate operations. This enables us to provide a high 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 Airbus Group, 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 competitors have occasionally formed teams with other competitors to address specific customer requirements. BDS expects the trend of strong competition to continue into 2016.

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 requirements. 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 could require us 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.

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Commercial Aircraft. In the U.S., 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.

Investigation, remediation, and operation 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 costs incurred to ensure continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if additional work requirements or more stringent clean-up standards are imposed by regulators, new areas of soil, air and groundwater contamination are discovered and/or expansions of work scope are prompted by the results of investigations.

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 for which we were originally assigned a partial share, the statutory framework would allow us to pursue rights to contribution from other PRPs. For additional information relating to environmental contingencies, see Note 11 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 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.

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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 website 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 website 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, D.C. 20549. The SEC also maintains a website 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 are used to identify these forward-looking statements.

Examples of forward-looking statements include statements relating to our future financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact.

Forward-looking statements are based on 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.

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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.

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, world trade policies, government-to-government relations, technological changes, price and other competitive factors, fuel prices, 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. In addition, availability of financing to non-U.S. customers depends in part on the Export-Import Bank of the United States. Significant deterioration in the global economic environment, the airline industry generally, or in the financial stability 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 macroeconomic, 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 price escalation formulas derived from labor, commodity and other price indices. 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. 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 maintain a healthy production system, achieve planned production rate targets, successfully develop new aircraft or new derivative aircraft, and meet or exceed stringent performance and reliability standards.

The commercial aircraft business is extremely complex, involving extensive coordination and integration with U.S. and non-U.S. suppliers, highly-skilled labor from thousands of employees and other partners, and stringent regulatory requirements and performance and reliability standards. In addition, the introduction of new aircraft programs and/or derivatives, such as the 787-10, 737 MAX and 777X, involves increased risks associated with meeting development, testing, production and certification schedules. As

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a result, our ability to deliver aircraft on time, satisfy regulatory and customer requirements, and achieve or maintain, as applicable, program profitability is subject to significant risks.

We must meet planned production rate and productivity improvement targets in order to satisfy customer demand and maintain our profitability. We continue to increase production rates for the 737, 767 and 787 programs, while at the same time engaging in significant ongoing development of the 787-10, 737 MAX and 777X aircraft. In addition, we continue to seek opportunities to reduce the costs of building our aircraft, including working with our suppliers to reduce supplier costs, identifying and implementing productivity improvements, and optimizing how we manage inventory. If production rate 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 cost and rates necessary to achieve our targets, we may be unable to meet delivery schedules and the financial performance of one or more of our programs may suffer.

Operational challenges impacting the production system for one or more of our commercial aircraft programs could result in production delays and/or failure to meet customer demand for new aircraft, either of which would negatively impact our revenues and operating margins. Our commercial aircraft production system is extremely complex.

Operational issues, including delays or defects in supplier components, failure to meet internal performance plans, or delays or failures to achieve required regulatory certifications, could result in significant out-of-sequence work and increased production costs, as well as delayed deliveries to customers, impacts to aircraft performance and/or increased warranty or fleet support costs. Further, if we cannot efficiently and cost-effectively incorporate design changes into early build 787 aircraft, we may face further profitability pressures on this program.

If our commercial airplanes fail to satisfy performance and reliability requirements, we could face additional costs and/or lower revenues. Developing and manufacturing commercial aircraft that meet or exceed our performance and reliability standards, as well as those of customers and regulatory agencies, can be costly and technologically challenging. These challenges are particularly significant with newer aircraft programs. Any failure of any Boeing aircraft to satisfy performance or reliability requirements could result in disruption to our operations, higher costs and/or lower revenues.

Changes in levels of U.S. government defense spending or overall acquisition priorities could negatively impact our financial position and results of operations.

We derive a substantial portion of our revenue from the U.S. government, primarily from defense related programs with the U.S. DoD. Levels of U.S. defense spending in future periods are very difficult to predict and subject to significant risks. In addition, significant budgetary delays and constraints have already resulted in reduced spending levels, and additional reductions may be forthcoming. In August 2011, the Budget Control Act (The Act) established limits on U.S. government discretionary spending, including a reduction of defense spending by approximately \$490 billion between the 2012 and 2021 U.S. government fiscal years. The Act also provided that the defense budget would face “sequestration” cuts of up to an additional \$500 billion during that same period to the extent that discretionary spending limits are exceeded. The impact of sequestration cuts has been reduced with respect to FY2016 and FY2017 following the enactment of The Bipartisan Budget Act of 2015 in November 2015. However, long-term uncertainty remains with respect to overall levels of defense spending and it is likely that U.S. government discretionary spending levels will continue to be subject to significant pressure, including risk of future sequestration cuts.

In addition, there continues to be significant uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies (including NASA) within the overall budgetary framework described above. While the FY2016 appropriations enacted December 2015 included funding for Boeing’s major programs, such as F/A-18, CH-47 Chinook, AH-64 Apache, KC-46A Tanker and P-8 programs, uncertainty remains about how defense budgets in FY2017 and beyond will affect Boeing’s programs. We also expect that ongoing concerns regarding the U.S. national debt will continue to place downward

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pressure on U.S. DoD spending levels. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorizations and appropriations process could result in reductions, cancellations, and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows.

In addition, as a result of the significant ongoing uncertainty with respect to both U.S. defense spending levels and the nature of the threat environment, we expect the U.S. DoD to continue to emphasize cost-cutting and other efficiency initiatives in its procurement processes. If we can no longer adjust successfully to these changing acquisition priorities and/or fail to meet affordability targets set by the U.S. DoD customer, our revenues and market share would be further impacted.

We conduct a significant portion of our business pursuant to U.S. government contracts, which are subject to unique risks.

In 2015, 27% of our revenues were earned pursuant to U.S. government contracts, which include foreign military sales through the U.S. government. Business conducted pursuant to such contracts is subject to extensive procurement regulations and other unique risks.

Our sales to the U.S. government are subject to extensive procurement regulations, and changes to those regulations could increase our costs. New procurement regulations, or changes to existing requirements, could increase our compliance costs or otherwise have a material impact on the operating margins of our BDS business. These requirements may result in increased compliance costs, and we could be subject to additional costs in the form of withheld payments and/or reduced future business if we fail to comply with these requirements in the future.

Compliance costs attributable to current and potential future procurement regulations such as these could negatively impact our financial condition and operating results.

The U.S. government may modify, curtail or terminate one or more of our contracts. The U.S. government contracting party may modify, curtail or terminate its contracts and subcontracts with us, without prior notice and either at its convenience or for default based on performance. In addition, funding pursuant to our U.S. government contracts may be reduced or withheld as part of the U.S. Congressional appropriations process due to fiscal constraints, changes in U.S. national security strategy and/or priorities or other reasons. Further uncertainty with respect to ongoing programs could also result in the event that the U.S. government finances its operations through temporary funding measures such as "continuing resolutions" rather than full-year appropriations. Any loss or anticipated loss or reduction of expected funding and/or modification, curtailment, or termination of one or more large programs could have a material adverse effect on our earnings, cash flow and/or financial position.

We are subject to U.S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under U.S. government contracts. U.S. government agencies, including the Defense Contract Audit Agency and the Defense Contract Management Agency, routinely audit government contractors. These agencies review our performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and our compliance with our internal control systems and policies. Any costs found to be misclassified or inaccurately allocated to a specific contract will be deemed non-reimbursable, and to the extent already reimbursed, must be refunded. Any inadequacies in our systems and policies could result in withholds on billed receivables, penalties and reduced future business. Furthermore, if any audit, inquiry or investigation uncovers improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with the U.S. government. We also could suffer reputational harm if allegations of impropriety were made against us, even if such allegations are later determined to be false.

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

Our BDS business generated approximately 72% of its 2015 revenues from fixed-price contracts. While 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. For example, during the second quarter of 2015, we recorded a reach-forward loss of \$835 million on the USAF KC-46A Tanker contract, primarily driven by additional costs attributable to design changes, testing and manufacturing complexity. 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. 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 Commercial Crew, Saudi F-15, USAF KC-46A Tanker, and commercial and military satellites.

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

Our BDS business generated approximately 28% of its 2015 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, Proprietary and SLS programs.

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 or incur additional costs. 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,

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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, such as geo-political developments, 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. For example, we continue to monitor political unrest involving Russia and Ukraine, where we and some of our suppliers source titanium products and/or have operations.

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 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, changes to price escalation indices, costs of derivative aircraft, supplier performance, customer and supplier 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, 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 44 – 45 and Note 1 to our Consolidated Financial Statements on pages 55 – 66 of this Form 10-K.

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Competition within our markets and with respect to the products we sell 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, fewer large and new programs and new priorities, including near and long-term cost competitiveness, of our U.S. DoD and international customers 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 2015, non-U.S. customers accounted for approximately 59% 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;
- the uncertainty of the ability of non-U.S. customers to finance purchases, including the availability of financing from the Export-Import Bank of the United States;
- uncertainties and restrictions concerning the availability of funding credit or guarantees;
- imposition of domestic and international taxes, export controls, tariffs, embargoes, sanctions 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
- unforeseen developments and conditions, including terrorism, war, epidemics and international conflicts.

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 have a material effect on our financial position and results of operations. We are involved in a number of litigation matters. These matters 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

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a material impact on our financial position and results of operations. In addition, we are subject to extensive regulation under the laws of the United States and its various states, as well as other jurisdictions in which we operate. As a result, 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 current or past ownership of certain property. Any such inquiry or investigation could potentially result in an adverse ruling against us, which could have a material impact on our financial position and results of operations.

A significant portion of our 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 and 747-8F 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, 2015 and 2014, our airplane financing commitments totaled \$16,283 million and \$16,723 million. 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 global capital markets and/or a decline in our financial performance, 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, and the performance of the management team and other personnel of the acquired operations.

Accordingly, our financial results could be adversely affected by 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.

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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. We maintain insurance for certain risks and, in some circumstances, we may receive indemnification from the U.S. government. 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 some 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 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 effect on the reputation of Boeing and of our products and services.

Some of our and our suppliers' workforces are represented by labor unions, which may lead to work stoppages. Approximately 61,000 employees, which constitute 38% of our total workforce, were union represented as of December 31, 2015. We experienced a work stoppage in 2008 when a labor strike halted commercial aircraft and certain BMA program production. We may experience additional work stoppages in the future, which could adversely affect our business. We cannot predict how stable our relationships, currently with 11 U.S. labor organizations and 6 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.

We have substantial pension and other postretirement benefit obligations, which have a material impact on our earnings, shareholders' equity and cash flows from operations and could have significant adverse impacts in future periods.

We have qualified defined benefit pension plans that cover the majority of our employees. Potential pension contributions include both mandatory amounts required under the Employee Retirement Income Security Act and discretionary contributions to improve the plans' funded status. The extent of future contributions depends heavily on market factors such as the discount rate and the actual return on plan assets. We estimate future contributions to these plans using assumptions with respect to these and other items. Changes to those assumptions could have a significant effect on future contributions as well as on our annual pension costs and/or result in a significant change to shareholders' equity. For U.S. government contracts, we allocate pension costs to individual contracts based on U.S. Cost Accounting Standards which can also affect contract profitability. We also provide other postretirement benefits to certain of our employees, consisting principally of health care coverage for eligible retirees and qualifying dependents. Our estimates of future costs associated with these benefits are also subject to assumptions, including

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estimates of the level of medical cost increases. 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-Pension Plans” on pages 46 – 47 of this Form 10-K. Although GAAP expense and pension or other postretirement benefit contributions are not directly related, the key economic factors that affect GAAP expense would also likely affect the amount of cash or stock we would contribute to our plans.

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 11 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, monitoring systems and management oversight in order to address these threats. While these measures are designed to prevent, detect and respond to unauthorized activity in our systems, certain types of attacks, including cyber-attacks, could result in significant financial or information 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

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Item 2. Properties

We occupied approximately 83 million square feet of floor space on December 31, 2015 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, 2015:

(Square feet in thousands)	Owned	Leased	Government Owned ⁽¹⁾	Total
Commercial Airplanes	39,761	5,806		45,567
Defense, Space & Security	26,047	8,091		34,138
Other ⁽²⁾	2,400	643	318	3,361
Total	68,208	14,540	318	83,066

⁽¹⁾ Excludes rent-free space furnished by U.S. government landlord of 272 square feet.

⁽²⁾ Other includes BCC; EO&T; SSG; and our Corporate Headquarters.

At December 31, 2015, we occupied in excess of 75.3 million square feet of floor space at the following major locations:

Commercial Airplanes – Greater Seattle, WA; Greater Charleston, SC; Portland, OR; Greater Los Angeles, CA; Greater Salt Lake City, UT; Australia; and Canada

Defense, Space & Security – Greater St. Louis, MO; Greater Los Angeles, CA; Greater Seattle, WA; Philadelphia, PA; Mesa, AZ; San Antonio, TX; Huntsville, AL; Greater Washington, DC; Oklahoma City, OK; and Houston, TX

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 20 to our Consolidated Financial Statements, which is hereby incorporated by reference.

Item 4. Mine Safety Disclosures

Not applicable

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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 4, 2016, there were 123,824 shareholders of record. Additional information required by this item is incorporated by reference from Note 22 to our Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table provides information about purchases of our common stock we made during the quarter ended December 31, 2015:

(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⁾
10/1/2015 thru 10/31/2015	3,582,002	\$139.77	3,577,758	\$5,500
11/1/2015 thru 11/30/2015	1,718,412	145.83	1,714,600	5,250
12/1/2015 thru 12/31/2015	10,579	146.09		14,000
Total	5,310,993	\$141.74	5,292,358	

We purchased an aggregate of 5,292,358 shares of our common stock in the open market pursuant to our repurchase plan and 18,349 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We purchased 286 shares in swap transactions.

On December 14, 2015, we announced a new repurchase plan for up to \$14 billion of common stock, replacing the plan previously authorized in 2014.

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Item 6. Selected Financial Data

Five-Year Summary (Unaudited)

(Dollars in millions, except per share data)

	2015	2014	2013	2012	2011
Operations					
Revenues:					
Commercial Airplanes	\$66,048	\$59,990	\$52,981	\$49,127	\$36,171
Defense, Space & Security:					
Boeing Military Aircraft	13,482	13,500	15,275	15,373	14,100
Network & Space Systems	7,751	8,003	8,512	7,911	8,964
Global Services & Support	9,155	9,378	9,410	9,323	8,912
Total Defense, Space & Security	30,388	30,881	33,197	32,607	31,976
Boeing Capital	413	416	408	468	547
Unallocated items, eliminations, and other	(735)	(525)	37	(504)	41
Total revenues	\$96,114	\$90,762	\$86,623	\$81,698	\$68,735
General and administrative expense	3,525	3,767	3,956	3,717	3,408
Research and development expense	3,331	3,047	3,071	3,298	3,918
Other (loss)/income, net	(13)	(3)	56	62	47
Net earnings from continuing operations	\$5,176	\$5,446	\$4,586	\$3,903	\$4,011
Net (loss)/gain on disposal of discontinued operations, net of tax			(1)	(3)	7
Net earnings	\$5,176	\$5,446	\$4,585	\$3,900	\$4,018
Basic earnings per share from continuing operations	7.52	7.47	6.03	5.15	5.38
Diluted earnings per share from continuing operations	7.44	7.38	5.96	5.11	5.33
Cash dividends declared	\$2,575	\$2,210	\$1,642	\$1,360	\$1,263
Per share	3.82	3.10	2.185	1.81	1.70
Additions to Property, plant and equipment	2,450	2,236	2,098	1,703	1,713
Depreciation of Property, plant and equipment	1,357	1,414	1,338	1,248	1,119
Year-end workforce	161,400	165,500	168,400	174,400	171,700
Financial position at December 31					
Total assets ⁽¹⁾	\$94,408	\$92,921	\$90,014	\$84,528	\$77,206
Working capital ⁽¹⁾	17,822	19,534	19,830	16,667	11,287
Property, plant and equipment, net	12,076	11,007	10,224	9,660	9,313
Cash and cash equivalents	11,302	11,733	9,088	10,341	10,049
Short-term and other investments	750	1,359	6,170	3,217	1,223
Total debt	9,964	9,070	9,635	10,409	12,371
Customer financing assets	3,570	3,561	3,971	4,420	4,772
Shareholders' equity	6,335	8,665	14,875	5,867	3,515
Common shares outstanding (in millions)	666.6	706.7	747.4	755.6	744.7
Contractual Backlog:					
Commercial Airplanes	\$431,408	\$440,118	\$372,980	\$317,287	\$293,303
Defense, Space & Security:					
Boeing Military Aircraft	20,019	21,119	23,580	27,878	22,091
Network & Space Systems	7,368	8,935	9,832	10,078	9,429
Global Services & Support	17,800	16,920	16,269	17,112	14,834
Total Defense, Space & Security	45,187	46,974	49,681	55,068	46,354
Total contractual backlog	\$476,595	\$487,092	\$422,661	\$372,355	\$339,657

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

(1) Prior year balances of deferred tax assets/(liabilities) have been revised to reflect current year presentation. See Note 4 to our Consolidated Financial Statements.

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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, service 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 Defense, Space & Security (BDS) – supplemented and supported by Boeing Capital (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, space and services to deliver capability-driven solutions to its customers at reduced costs. Our BDS 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 us as the cyclical nature of commercial and defense markets sometimes offset. BCC facilitates, arranges, structures and provides selective financing solutions for our Boeing customers.

Consolidated Results of Operations

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

(Dollars in millions, except per share data)

Years ended December 31,	2015	2014	2013		
Revenues	\$96,114	\$90,762	\$86,623		
GAAP					
Earnings from operations	7,443	7,473	6,562		
Operating margins	7.7	% 8.2	% 7.6		%
Effective income tax rate	27.7	% 23.7	% 26.4		%
Net earnings	\$5,176	\$5,446	\$4,585		
Diluted earnings per share	\$7.44	\$7.38	\$5.96		
Non-GAAP ⁽¹⁾					
Core operating earnings	\$7,741	\$8,860	\$7,876		
Core operating margin	8.1	% 9.8	% 9.1		%
Core earnings per share	\$7.72	\$8.60	\$7.07		

These measures exclude certain components of pension and other postretirement benefit expense. See page 43 for

(1) important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

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Revenues

The following table summarizes Revenues:

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Commercial Airplanes	\$66,048	\$59,990	\$52,981
Defense, Space & Security	30,388	30,881	33,197
Boeing Capital	413	416	408
Unallocated items, eliminations and other	(735)	(525)	37
Total	\$96,114	\$90,762	\$86,623

Revenues in 2015 increased by \$5,352 million or 6% compared with 2014. Commercial Airplanes revenues increased by \$6,058 million or 10% due to higher new airplane deliveries and mix. BDS revenues decreased by \$493 million or 2% due to lower revenues in all three segments. Revenues in 2014 increased by \$4,139 million or 5% compared with 2013. Commercial Airplanes revenues increased by \$7,009 million primarily due to higher new airplane deliveries. BDS revenues decreased by \$2,316 million due to lower revenues in all three segments. The changes in unallocated items, eliminations and other in 2015, 2014 and 2013 primarily reflect the timing of eliminations for intercompany aircraft deliveries.

Earnings From Operations

The following table summarizes Earnings from operations:

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Commercial Airplanes	\$5,157	\$6,411	\$5,795
Defense, Space & Security	3,274	3,133	3,235
Boeing Capital	50	92	107
Unallocated pension and other postretirement benefit expense	(298)	(1,387)	(1,314)
Other unallocated items and eliminations	(740)	(776)	(1,261)
Earnings from operations (GAAP)	\$7,443	\$7,473	\$6,562
Unallocated pension and other postretirement benefit expense	298	1,387	1,314
Core operating earnings (Non-GAAP)	\$7,741	\$8,860	\$7,876

Earnings from operations in 2015 decreased by \$30 million compared with 2014 primarily reflecting a fourth quarter charge of \$885 million related to the 747 program at Commercial Airplanes and higher charges of \$410 million related to the USAF KC-46A Tanker recorded by Commercial Airplanes and our Boeing Military Aircraft (BMA) segment, partially offset by lower unallocated pension and other postretirement benefit expense of \$1,089 million. Earnings from operations in 2014 increased by \$911 million compared with 2013 primarily reflecting higher earnings at Commercial Airplanes of \$616 million and lower unallocated items and eliminations of \$485 million. The decrease in unallocated items is due to the A-12 litigation settlement of \$406 million which was recorded in 2013 and lower 2014 deferred compensation of \$194 million. The A-12 aircraft litigation settlement resulted in the Company recording a \$406 million pre-tax charge in 2013, which consisted of writing-off A-12 inventory, recorded as cost of sales, and providing three EA-18G Growlers at no cost to the U.S. Navy, recorded as a reduction in revenues.

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During the second quarter of 2015 and of 2014, we recorded reach-forward losses of \$835 million and \$425 million on the USAF KC-46A Tanker contract. \$513 million of the 2015 charge was recorded at Commercial Airplanes and \$322 million at our BMA segment. \$238 million of the 2014 charge was recorded at Commercial Airplanes and \$187 million at our BMA segment.

Core operating earnings in 2015 decreased by \$1,119 million compared with 2014 primarily due to the 2015 747 charge and higher USAF KC-46A Tanker charges. Core operating earnings in 2014 increased by \$984 million compared with 2013 primarily reflecting higher earnings at Commercial Airplanes and the 2013 A-12 charge.

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

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Share-based plans	(\$76)	(\$67)	(\$95)
Deferred compensation	(63)	(44)	(238)
Eliminations and other	(601)	(665)	(522)
Litigation settlements			(406)
Sub-total (included in core operating earnings*)	(740)	(776)	(1,261)
Pension	(421)	(1,469)	(1,374)
Postretirement	123	82	60
Pension and other postretirement benefit expense (excluded from core operating earnings*)	(298)	(1,387)	(1,314)
Total unallocated items, eliminations and other	(\$1,038)	(\$2,163)	(\$2,575)

* Core operating earnings is a Non-GAAP measure that excludes certain components of pension and other postretirement benefit expense. See page 43.

Deferred compensation expense increased by \$19 million in 2015 and decreased by \$194 million in 2014, primarily driven by changes in broad stock market conditions and our stock price.

Eliminations and other unallocated expense decreased by \$64 million in 2015 primarily due to the timing of the elimination of profit on intercompany aircraft deliveries and expense allocations. The increase of \$143 million in 2014 was primarily due to insurance recoveries which were recorded in the third quarter of 2013.

Litigation settlements include the 2013 charge of \$406 million related to the settlement of the A-12 litigation.

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Net periodic benefit cost related to pension totaled \$2,786 million, \$2,208 million and \$3,449 million in 2015, 2014 and 2013, respectively. The components of net periodic benefit cost are shown in the following table:

Years ended December 31,	Pension		
	2015	2014	2013
Service cost	\$1,764	\$1,661	\$1,886
Interest cost	2,990	3,058	2,906
Expected return on plan assets	(4,031)	(4,169)	(3,874)
Amortization of prior service costs	196	177	196
Recognized net actuarial loss	1,577	1,020	2,231
Settlement/curtailment/other losses	290	461	104
Net periodic benefit cost	\$2,786	\$2,208	\$3,449

The increase in 2015 net periodic benefit cost related to pension is primarily due to \$557 million of higher amortization of actuarial losses due to lower discount rates. The decrease in 2014 is primarily due to lower amortization of actuarial losses due to higher discount rates which more than offset higher 2014 curtailment charges. A portion of net periodic benefit cost is recognized in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods. Costs are allocated to the business segments as described in Note 21.

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

(Dollars in millions) Years ended December 31,	Pension		
	2015	2014	2013
Allocated to business segments	(\$1,945)	(\$1,746)	(\$1,662)
Unallocated items, eliminations and other	(421)	(1,469)	(1,374)
Total	(\$2,366)	(\$3,215)	(\$3,036)

Unallocated pension expense recognized in earnings decreased by \$1,048 million in 2015 primarily due to lower amortization of pension costs capitalized as inventory in prior years and lower curtailment charges in 2015.

Unallocated pension expense in 2014 reflects pension charges of \$395 million, primarily for pension curtailment costs.

Other Earnings Items

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Earnings from operations	\$7,443	\$7,473	\$6,562
Other (loss)/income, net	(13)	(3)	56
Interest and debt expense	(275)	(333)	(386)
Earnings before income taxes	7,155	7,137	6,232
Income tax expense	(1,979)	(1,691)	(1,646)
Net earnings from continuing operations	\$5,176	\$5,446	\$4,586

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Interest and debt expense decreased by \$58 million in 2015 as a result of higher interest capitalized on construction in progress. Interest and debt expense decreased by \$53 million in 2014 as a result of lower weighted average debt balances.

Our effective income tax rates were 27.7%, 23.7% and 26.4% for the years ended December 31, 2015, 2014 and 2013, respectively. Our 2015 effective tax rate was higher than 2014 primarily due to tax benefits of \$524 million recorded in the second quarter of 2014 related to tax basis adjustments and settlement of the 2007 - 2010 federal tax audits. Our 2014 effective tax rate was lower than 2013 primarily due to the tax benefits of \$524 million recorded in the second quarter of 2014.

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

Total Costs and Expenses (“Cost of Sales”)

Cost of sales, for both products and services, consists primarily of raw materials, parts, sub-assemblies, labor, overhead and subcontracting costs. Our Commercial Airplanes segment predominantly uses program accounting to account for cost of sales and BDS predominantly uses contract accounting. Under program accounting, cost of sales for each commercial airplane program equals the product of (i) revenue recognized in connection with customer deliveries and (ii) the estimated cost of sales percentage applicable to the total remaining program. Under contract accounting, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

The following table summarizes cost of sales:

(Dollars in millions)

Years ended December 31,	2015	2014	Change	2014	2013	Change	
Cost of sales	\$82,088	\$76,752	\$5,336	\$76,752	\$73,268	\$3,484	
Cost of sales as a % of revenues	85.4	% 84.6	% 0.8	% 84.6	% 84.6	% 0.0	%

Cost of sales in 2015 increased by \$5,336 million, or 7%, compared with the same period in 2014, primarily driven by the \$5,352 million, or 6%, increase in revenues. Cost of sales at Commercial Airplanes increased by \$6,846 million, or 14%, primarily driven by the 10% increase in revenues. Cost of sales at BDS decreased by \$252 million, or 1%, primarily due to the 2% reduction in revenues. Cost of sales as a percentage of revenue was approximately 85.4% in 2015 compared with 84.6% in 2014 primarily driven by the 2015 747 charge and higher KC-46A Tanker charges. Cost of sales in 2014 increased by \$3,484 million, or 5%, compared with the same period in 2013, primarily driven by the increase in revenue. Cost of sales at Commercial Airplanes increased by \$6,265 million, or 14%, primarily driven by the 13% increase in revenues. Cost of sales at BDS decreased by \$2,085 million, or 8%, primarily due to the 7% reduction in revenues.

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

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Commercial Airplanes	\$2,340	\$1,881	\$1,807
Defense, Space & Security	986	1,158	1,215
Other	5	8	49
Total	\$3,331	\$3,047	\$3,071

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Research and development expense in 2015 increased by \$284 million compared to 2014 primarily due to higher 777X spending at Commercial Airplanes which more than offset lower spending at BDS. Research and development expense in 2014 decreased by \$24 million compared to 2013. In 2014, Commercial Airplanes spending increased on 777X, 787-10 and 737 MAX, partially offset by lower spending on the 787-9.

Backlog

Our backlog at December 31 was as follows:

(Dollars in millions)	2015	2014	2013
Contractual Backlog:			
Commercial Airplanes	\$431,408	\$440,118	\$372,980
Defense, Space & Security:			
Boeing Military Aircraft	20,019	21,119	23,580
Network & Space Systems	7,368	8,935	9,832
Global Services & Support	17,800	16,920	16,269
Total Defense, Space & Security	45,187	46,974	49,681
Total contractual backlog	\$476,595	\$487,092	\$422,661
Unobligated backlog	\$12,704	\$15,299	\$18,267

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The decrease in contractual backlog at December 31, 2015 compared with December 31, 2014 was primarily due to deliveries in excess of net orders. The increase in contractual backlog at December 31, 2014 compared with December 31, 2013 was primarily due to commercial airplane orders and reclassifications from unobligated backlog related to incremental funding. The increase was partially offset by commercial airplane deliveries and revenues recognized on awarded contracts.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The decreases in unobligated backlog in 2015 and 2014 were primarily due to reclassifications to contractual backlog related to incremental funding for BDS contracts, partially offset by contract awards.

Additional Considerations

KC-46A Tanker In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. The KC-46A Tanker is a derivative of our 767 commercial aircraft. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at \$4.9 billion and involves highly complex designs and systems integration. We have also begun work on low rate initial production (LRIP) aircraft for the USAF. The USAF is expected to authorize two low rate initial production lots in 2016 for a total of 19 aircraft, subject to satisfactory progress being made on the EMD contract.

In second quarter 2014, we recorded a reach-forward loss of \$425 million on the EMD contract. In second quarter 2015, we recorded an additional reach-forward loss of \$835 million. \$513 million of this loss was recorded at our Commercial Airplanes segment and the remaining \$322 million was recorded in our BMA segment. The \$835 million loss includes \$670 million related to the EMD contract and \$165 million related to LRIP aircraft. The reach-forward loss on the EMD contract was driven primarily by design changes required in the aircraft fuels and aerial refueling systems which were identified as we prepared for and conducted ground and flight testing. Other costs include additional qualification and certification testing as well as investments that will enable us to meet our delivery commitments in 2017. The reach-forward

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loss related to LRIP aircraft was primarily driven by increased manufacturing complexity resulting from design changes. As with any development program, this program remains subject to additional reach-forward losses if we experience technical or quality issues, schedule delays or increased costs.

We continue to expect to meet our commitment to deliver 18 fully operational aircraft to the customer by August 2017. The contract contains production options for both LRIP aircraft and full rate production aircraft. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately \$30 billion.

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

Export-Import Bank of the United States Many of our non-U.S. customers finance purchases through the Export-Import Bank of the United States. Following the expiration of the bank's charter on June 30, 2015, the bank's charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank's board of directors, the bank will not be able to approve any transaction totaling more than \$10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay purchases if they cannot obtain financing at reasonable costs, and there may be further impacts with respect to future sales campaigns involving non-U.S. customers. We continue to work with our customers to mitigate risks associated with the lack of a quorum of the bank's board of directors and assist with alternative third party financing sources.

Segment Results of Operations and Financial Condition

Commercial Airplanes

Business Environment and Trends

Airline Industry Environment Global economic activity and global trade, which are the primary drivers of the demand for air travel, grew below the long-term average for the fourth year in a row in 2015. Despite this, passenger traffic continued to grow more than 5%, as it has every year since 2010, and accelerated to more than 6% in 2015. While growth was strong across all major world regions, there continues to be significant variation between regions and airline business models. Airlines operating in the Middle East and Asia Pacific regions as well as low-cost-carriers globally are currently leading passenger growth.

Air cargo traffic grew at 5% in the first quarter and 3% in the second quarter of 2015 compared with the same periods in 2014. However, weaker global industrial production and world trade resulted in little to no cargo traffic growth during the remainder of the year. The slowing air cargo market recovery has resulted in reduced orders and demand for new freighter aircraft and freighter conversions, and in January 2016, we announced plans to further reduce production rates on the 747 program.

Airline financial performance also plays a role in the demand for new capacity. Airlines continue to focus on increasing revenue through alliances, partnerships, new marketing initiatives, and effective leveraging of ancillary services and related revenues. Airlines are also relentlessly focusing on reducing costs by renewing fleets to leverage more efficient airplanes and in 2015 benefited significantly from lower fuel costs. Net profits for the global airline industry are estimated to total \$33 billion in 2015 compared to \$17 billion in 2014. We expect airline profits to continue to grow in 2016, driven by strong passenger demand and relatively low oil prices.

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The long-term outlook for the industry continues to remain 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 projects a long-term average growth rate of 4.9% per year for passenger traffic and 4.2% for cargo traffic. Based on long-term global economic growth projections of 3.1% average annual GDP growth, and factoring in increased utilization of the worldwide airplane fleet and requirements to replace older airplanes, we project a \$5.6 trillion market for approximately 38,000 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, epidemics 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 is enabling low-cost airlines to continue gaining market share. These airlines are increasing the 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 11% of Commercial Airplanes' contractual backlog, in dollar terms, is with U.S. airlines, including cargo carriers.

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. With government support, Airbus has 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 increasingly capable airplanes. Additionally, other competitors from Russia, China and Japan are developing commercial jet aircraft in the market above 90 seats. 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. Many competitors are expected to benefit from the strong U.S. dollar experienced in 2015 and ongoing improvements in efficiency, which may result in funding product development, gaining market share through pricing and/or improving 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, spare parts, 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.

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Results of Operations

(Dollars in millions)

Years ended December 31,

	2015		2014		2013	
Revenues	\$66,048		\$59,990		\$52,981	
% of total company revenues	69	%	66	%	61	%
Earnings from operations	\$5,157		\$6,411		\$5,795	
Operating margins	7.8	%	10.7	%	10.9	%
Research and development	\$2,340		\$1,881		\$1,807	
Contractual backlog	\$431,408		\$440,118		\$372,980	
Unobligated backlog	\$216		\$360		\$660	

Revenues

Commercial Airplanes revenues increased by \$6,058 million or 10% in 2015 compared with 2014 and by \$7,009 million or 13% in 2014 compared with 2013 primarily due to higher new airplane deliveries and mix.

Commercial Airplanes deliveries as of December 31 were as follows:

	737	*	747	†	767	777	787	†	Total
2015									
Cumulative deliveries	5,713		1,519		1,083	1,361	363		
Deliveries	495	(15)	18	(3)	16	98	135		762
2014									
Cumulative deliveries	5,218		1,501		1,067	1,263	228		
Deliveries	485	(15)	19	(3)	6	99	114		723
2013									
Cumulative deliveries	4,733		1,482		1,061	1,164	114		
Deliveries	440	(8)	24		21	98	65	(1)	648

* Intercompany deliveries identified by parentheses

† Aircraft accounted for as revenues by Commercial Airplanes and as operating leases in consolidation identified by parentheses

Earnings From Operations

Earnings from operations in 2015 decreased by \$1,254 million or 20% compared with 2014 primarily due to higher reach-forward losses of \$1,160 million and higher research and development spending of \$459 million, largely on the 777X, which more than offset higher new airplane deliveries and mix. During the fourth quarter of 2015 we recorded a charge of \$885 million to recognize a reach-forward loss on the 747 program. In addition, we recorded reach-forward losses on the USAF KC-46A Tanker contract of \$513 million in the second quarter of 2015 and \$238 million in the second quarter of 2014. Operating margins in 2015 decreased primarily due to additional reach-forward losses, higher research and development expense and the dilutive impact of 787 volume and mix.

Earnings from operations in 2014 increased by \$616 million or 11% compared with 2013. The increase in earnings is primarily due to higher earnings of \$947 million driven by higher new airplane deliveries and commercial aviation services revenue growth. This earnings increase was partially offset by a reach-

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forward loss of \$238 million recorded in the second quarter of 2014 related to the USAF KC-46A Tanker contract and higher research and development expense of \$74 million. The increase in research and development reflects higher spending on the 777X, 787-10 and 737 MAX, which more than offset lower 787-9 spending. Operating margins decreased from 10.9% in 2013 to 10.7% in 2014 primarily due to the dilutive impact of 747 and 787 deliveries and the USAF KC-46A Tanker reach-forward loss.

Backlog

Firm backlog represents orders for products and services where no contingencies remain before we and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the 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 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 decrease in contractual backlog during 2015 was due to deliveries in excess of net orders. The increase in contractual backlog during 2014 was due to net orders in excess of deliveries. The decrease in unobligated backlog during 2015 and 2014 was primarily due to the reclassification from unobligated to contractual backlog related to incremental funding of the existing multi-year contract for Commercial Airplanes' share of the USAF KC-46A Tanker contract.

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.

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The following table 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 aircraft deliveries plus undelivered firm orders.

	Program					
	737	747**	767	777	777X	787
2015						
Program accounting quantities	8,400	1,574	1,147	1,650	*	1,300
Undelivered units under firm orders	4,392	20	80	218	306	779
Cumulative firm orders	10,105	1,539	1,163	1,579	306	1,142
2014						
Program accounting quantities	7,800	1,574	1,113	1,600	*	1,300
Undelivered units under firm orders	4,299	36	47	278	286	843
Cumulative firm orders	9,517	1,537	1,114	1,541	286	1,071
2013						
Program accounting quantities	7,000	1,574	1,113	1,550	*	1,300
Undelivered units under firm orders	3,680	55	49	314	66	916
Cumulative firm orders	8,413	1,537	1,110	1,478	66	1,030

* The accounting quantity for the 777X will be determined in the year of first airplane delivery, targeted for 2020.

** At December 31, 2015, undelivered 747 units under firm orders include a number of aircraft that are being remarketed.

Program Highlights

737 Program The accounting quantity for the 737 program increased by 600 units during 2015 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 42 per month and plan an additional increase to 47 per month in 2017. We plan to further increase the rate to 52 per month in 2018 and to 57 per month in 2019. First delivery of the 737 MAX is expected in 2017.

747 Program Lower-than-expected demand for large commercial passenger and freighter aircraft and slower-than-expected growth of global freight traffic have resulted in market uncertainties, ongoing pricing pressures and fewer orders than anticipated. During the second half of 2015, the cargo market recovery slowed, and in January 2016, we announced a plan to further reduce the production rate to 0.5 per month as well as recognize a reach-forward loss of \$885 million on the program. The charge, which was recorded during the fourth quarter of 2015, is primarily related to lower anticipated revenues reflecting ongoing pricing and market pressures, as well as higher estimated costs due to the reduced production rate. We are currently producing at a rate of 1.3 per month with plans to reduce the rate to 1.0 per month in March 2016, further reduce the rate to 0.5 per month in September 2016 and then return to 1.0 per month in 2019. We have a number of completed aircraft in inventory as well as unsold production positions and we remain focused on obtaining additional orders and implementing cost-reduction efforts. If we are unable to obtain sufficient orders in 2016 and/or market, production and other risks cannot be mitigated, the program could face an additional reach-forward loss that may be material.

767 Program The accounting quantity for the 767 program increased by 34 units during 2015 due to the program's progress of obtaining additional orders and delivering airplanes. The 767 assembly line includes a 767 derivative to support the tanker program. We are currently producing at a combined tanker and

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commercial production rate of 1.5 per month and plan to increase to 2 per month in 2016. We plan to further increase the rate to 2.5 per month in the fourth quarter of 2017.

777 Program The accounting quantity for the 777 program increased by 50 units during 2015 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 8.3 per month and plan to reduce the rate to 7 per month in 2017. In the fourth quarter of 2013, we launched the 777X, which features a new composite wing, new engines and folding wing-tips. The 777X will have a separate program accounting quantity, which will be determined in the year of first airplane delivery, targeted for 2020.

787 Program We continue to produce at a rate of 10 per month and plan for rate increases to 12 per month in 2016 and 14 per month by the end of the decade. First delivery of the 787-10 derivative aircraft is targeted for 2018. The accounting quantity of 1,300 units remains unchanged.

We remain focused on increasing the production rate to 12 per month in 2016 and improving productivity. We continue to monitor and address challenges associated with aircraft production and assembly for both the 787-8 and 787-9, including management of our manufacturing operations and extended global supply chain, completion and integration of traveled work, as well as completing and delivering early build aircraft. In addition, we continue to work with our customers and suppliers to assess the specific impacts of 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. Based on sales activity and market interest we continue to believe that the remaining 787 flight-test aircraft are commercially saleable and we continue to include costs related to these aircraft in program inventory. However, there is risk that we may be unable to sell these aircraft. If we determine that any of the remaining flight-test aircraft cannot be sold, we would incur additional material charges related to the reclassification of costs associated with those aircraft to research and development expense.

The combination of production challenges, change incorporation on early build aircraft, schedule delays, customer and supplier impacts and changes to price escalation factors has created significant pressure on program profitability and we continue to have near breakeven gross margins. If risks related to these challenges, together with risks associated with planned production rate increases, or introducing or manufacturing the 787-10 derivative as scheduled cannot be mitigated, the program could face additional customer claims and/or supplier assertions, 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, engineering services, information services and systems and technical data and documents. The costs for fleet support are expensed as incurred and have historically been approximately 1.5% of total consolidated costs of products and services.

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

Reflects models in development during 2015

We launched the 787-10 in June 2013 and the 777X in November 2013.

Additional Considerations

The development and ongoing production of commercial aircraft is extremely complex, involving extensive coordination and integration with suppliers and highly-skilled labor from thousands of employees and other partners. Meeting or exceeding our performance and reliability standards, as well as those of customers and regulators, can be costly and technologically challenging. In addition, the introduction of new aircraft and derivatives, such as the 787-10, 737 MAX and 777X, involves increased risks associated with meeting development, production and certification schedules. As a result, our ability to deliver aircraft on time, satisfy performance and reliability standards and achieve or maintain, as applicable, program profitability is subject to significant risks. Factors that could result in lower margins (or a material charge if an airplane program has or is determined to have reach-forward losses) include the following: changes to the program accounting quantity, customer and model mix, production costs and rates, changes to price escalation factors due to changes in the inflation rate or other economic indicators, performance or reliability issues involving completed aircraft, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, additional change incorporation, achieving anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for new airplanes and derivatives and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the consolidated financial statements are appropriate, the technical complexity of our airplane programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.

Defense, Space & Security

Business Environment and Trends

United States Government Defense Environment Overview The enactment of The Bipartisan Budget Act of 2015 in November 2015 established overall defense spending levels for FY2016 and FY2017. However, uncertainty remains with respect to levels of defense spending for FY2018 and beyond, including risk of future sequestration cuts.

Significant uncertainty also continues with respect to program-level appropriations for the U.S. Department of Defense (U.S. DoD) and other government agencies, including the National Aeronautics and Space Administration, within the overall budgetary framework described above. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows.

In addition to the risks described above, if Congress is unable to pass appropriations bills in a timely manner, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to

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furlough employees in the U.S. DoD or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders.

International Environment Overview The international market continues to be driven by complex and evolving security challenges and the need to modernize aging equipment and inventories. BDS expects that it will continue to have a wide range of international opportunities across Asia, Europe and the Middle East given the diverse regional threats.

Results of Operations

(Dollars in millions)

Years ended December 31,	2015	2014	2013	
Revenues	\$30,388	\$30,881	\$33,197	
% of total company revenues	32	% 34	% 38	%
Earnings from operations	\$3,274	\$3,133	\$3,235	
Operating margins	10.8	% 10.1	% 9.7	%
Contractual backlog	\$45,187	\$46,974	\$49,681	
Unobligated backlog	\$12,488	\$14,939	\$17,607	

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, earnings and backlog may not be indicative of future operating results. In addition, depending on the customer and their funding sources, our orders might be structured as annual follow-on contracts, or as one large multi-year order or long-term award. As a result, period-to-period comparisons of backlog are not necessarily indicative of future workloads. The following discussions of comparative results among periods should be viewed in this context.

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

Years ended December 31,	2015	2014	2013
F/A-18 Models	35	44	48
F-15 Models	12	14	14
C-17 Globemaster III	5	7	10
CH-47 Chinook (New)	41	54	44
CH-47 Chinook (Renewed)	16		14
AH-64 Apache (New)	23	45	37
AH-64 Apache (Remanufactured)	38	37	45
P-8 Models	14	11	11
AEW&C	1	3	
C-40A	1	1	
Total	186	216	223

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Revenues

BDS revenues in 2015 decreased by \$493 million compared with 2014 due to lower revenues in all three segments. BDS revenues in 2014 decreased by \$2,316 million compared with 2013 primarily due to lower revenues of \$1,775 million in the BMA segment and lower revenues of \$509 million in the Network & Space Systems (N&SS) segment.

Earnings From Operations

BDS earnings from operations in 2015 increased by \$141 million compared with 2014 due to higher earnings in all three segments. Included above are net favorable cumulative contract catch-up adjustments, which were \$49 million lower in 2015 compared with 2014, primarily reflecting higher charges of \$135 million on the USAF KC-46A Tanker contract recorded at BMA which more than offset higher favorable adjustments in the Global Services & Support (GS&S) segment.

BDS earnings from operations in 2014 decreased by \$102 million compared with 2013 due to lower earnings of \$200 million and \$21 million in the BMA and N&SS segments, partially offset by higher earnings of \$119 million in the GS&S segment. Included above are net favorable cumulative contract catch-up adjustments, which were \$96 million higher in 2014 compared with 2013, primarily reflecting higher favorable adjustments in the GS&S segment.

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 was \$57,675 million at December 31, 2015, reflecting a decrease of 7% from December 31, 2014. BDS total backlog was \$61,913 million at December 31, 2014, reflecting a decrease of 8% from December 31, 2013. For further details on the changes between periods, refer to the discussions of the individual segments below.

Additional Considerations

Our BDS business includes a variety of development programs which have complex design and technical challenges. Many of these programs have cost-type contracting arrangements. In these cases, the associated financial risks are primarily in reduced fees, lower profit rates or program cancellation if cost, schedule or technical performance issues arise. Examples of these programs include Ground-based Midcourse Defense (GMD), Proprietary and Space Launch System (SLS) 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 during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues. Examples of significant fixed-price development programs include Saudi F-15, USAF KC-46A Tanker, Commercial Crew and commercial and military satellites.

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Boeing Military Aircraft

Results of Operations

(Dollars in millions)

Years ended December 31,	2015		2014		2013	
Revenues	\$13,482		\$13,500		\$15,275	
% of total company revenues	14	%	15	%	18	%
Earnings from operations	\$1,318		\$1,301		\$1,501	
Operating margins	9.8	%	9.6	%	9.8	%
Contractual backlog	\$20,019		\$21,119		\$23,580	
Unobligated backlog	\$7,151		\$8,020		\$10,064	

Revenues

BMA revenues in 2015 decreased by \$18 million compared with 2014 primarily due to lower revenues of \$1,083 million from fewer deliveries and mix on the F/A-18, Apache and V-22 programs, partially offset by higher revenues related to a cumulative catch-up adjustment recorded in the third quarter of 2015 on the F-15 program due to contract negotiations and higher milestone revenue on the USAF KC-46A Tanker program.

BMA revenues in 2014 decreased by \$1,775 million, or 12%, compared with 2013 primarily due to a reduction of revenue of \$1,730 million related to F-15 and USAF KC-46A Tanker milestones, fewer C-17 aircraft deliveries and delivery mix on the P-8 program.

Earnings From Operations

BMA earnings from operations in 2015 increased by \$17 million compared with 2014 primarily due to lower C-17 charges, higher Chinook deliveries and higher earnings on the F-15 program, primarily due to a cumulative catch-up adjustment recorded in the third quarter of 2015. These increases were partially offset by higher charges of \$135 million on the USAF KC-46A Tanker contract and lower earnings on proprietary programs. BMA recorded charges of \$322 million in the second quarter of 2015 and \$187 million in the second quarter of 2014 related to the USAF KC-46A Tanker contract. In addition, BMA recorded a charge of \$48 million in the first quarter of 2014 to write-off inventory and accrue termination liabilities as a result of our decision to produce three fewer C-17 aircraft in 2015 than previously planned. Net favorable cumulative contract catch-up adjustments were \$96 million lower in 2015 than in 2014 primarily driven by the USAF KC-46A Tanker charges and lower favorable F/A-18 adjustments, partially offset by higher favorable F-15 program adjustments.

BMA earnings from operations in 2014 decreased by \$200 million, or 13%, compared with 2013 primarily due to 2014 charges of \$235 million and lower earnings of \$73 million related to fewer deliveries on the C-17 program. The charges recorded in 2014 included \$187 million related to the USAF KC-46A Tanker contract and \$48 million to write off inventory and accrue termination liabilities as a result of our 2014 decision to produce three fewer C-17 aircraft in 2015 than previously planned. See Note 11 to our Consolidated Financial Statements. These decreases were partially offset by higher earnings of \$65 million related to improved performance on the F/A-18 program. In addition, in 2013, we recorded a charge of \$64 million to write off inventory and accrue termination liabilities as a result of the Republic of Korea's announcement to restart its F-X fighter aircraft competition. Net favorable cumulative contract catch-up adjustments were \$39 million lower in 2014 than in 2013 primarily driven by the reach-forward loss on the USAF KC-46A Tanker contract, partially offset by higher favorable adjustments to the F/A-18 and F-15 programs.

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Backlog

BMA total backlog at December 31, 2015 was \$27,170 million, a decrease of 7% reflecting revenue recognized on contracts awarded in prior years, partially offset by contract awards for the F-15, Apache, C-17 and F/A-18 programs. BMA total backlog at December 31, 2014 was \$29,139 million, a decrease of 13% reflecting revenue recognized on contracts awarded in prior years, partially offset by contract awards for the F/A-18, P-8 and Apache programs.

Additional Considerations

C-17 and F/A-18 See the discussion of the C-17 and F/A-18 programs in Note 11 to our Consolidated Financial Statements.

USAF KC-46A Tanker See the discussion of the USAF KC-46A Tanker program on pages 24 – 25.

Network & Space Systems

Results of Operations

(Dollars in millions)

Years ended December 31,	2015	2014	2013		
Revenues	\$7,751	\$8,003	\$8,512		
% of total company revenues	8	% 9	% 10		%
Earnings from operations	\$726	\$698	\$719		
Operating margins	9.4	% 8.7	% 8.4		%
Contractual backlog	\$7,368	\$8,935	\$9,832		
Unobligated backlog	\$4,979	\$5,987	\$6,076		

Revenues

N&SS revenues in 2015 decreased by \$252 million compared with 2014 primarily due to lower revenue of \$1,061 million, primarily on satellite and proprietary programs and volume and mix of sales to our United Launch Alliance (ULA) joint venture, partially offset by higher volume on the Commercial Crew program.

N&SS revenues in 2014 decreased by \$509 million compared with 2013 primarily due to a reduction of \$812 million related to lower volume on several government satellite, Electronic and Information Solutions (E&IS) and proprietary programs, partially offset by \$257 million related to higher volume on the Commercial Crew and SLS programs.

New-build satellite deliveries were as follows:

Years ended December 31,	2015	2014	2013
Commercial and civil satellites	3	5	3
Military satellites	1		4

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Earnings From Operations

N&SS earnings from operations in 2015 increased by \$28 million compared with 2014 primarily due to higher earnings of \$83 million from improved performance on several E&IS programs partially offset by lower performance on a development program. Net favorable cumulative contract catch-up adjustments were \$10 million lower in 2015 than in 2014 primarily due to higher unfavorable adjustments on commercial satellite programs.

N&SS earnings from operations in 2014 decreased by \$21 million compared with 2013 primarily due to lower earnings of \$84 million on several commercial satellite programs related to lower milestone volume, partially offset by higher earnings of \$68 million due to improved performance on several government satellite programs and our ULA joint venture as well as higher volume on Commercial Crew during the initial performance period. Net favorable cumulative contract catch-up adjustments were \$12 million higher in 2014 than in 2013.

N&SS earnings from operations include equity earnings of \$183 million, \$211 million and \$171 million primarily from our ULA joint venture in 2015, 2014 and 2013, respectively.

Backlog

N&SS total backlog was \$12,347 million at December 31, 2015, reflecting a decrease of 17% from December 31, 2014 primarily due to revenue recognized on contracts awarded in prior years, partially offset by current year contract awards including orders from NASA for International Space Station engineering support and Post Certification Mission 1 on the Commercial Crew program. N&SS total backlog was \$14,922 million at December 31, 2014, reflecting a decrease of 6% from December 31, 2013 primarily due to revenue recognized on contracts awarded in prior years, partially offset by current year contract awards for the Commercial Crew, commercial satellite and missile defense system programs.

Additional Considerations

United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 6, 11, and 12 to our Consolidated Financial Statements.

Sea Launch See the discussion of the Sea Launch receivables in Note 10 to our Consolidated Financial Statements.

LightSquared See the discussion of the LightSquared receivables in Note 5 to our Consolidated Financial Statements.

Global Services & Support

Results of Operations

(Dollars in millions)

Years ended December 31,	2015	2014	2013	
Revenues	\$9,155	\$9,378	\$9,410	
% of total company revenues	10	% 10	% 11	%
Earnings from operations	\$1,230	\$1,134	\$1,015	
Operating margins	13.4	% 12.1	% 10.8	%
Contractual backlog	\$17,800	\$16,920	\$16,269	
Unobligated backlog	\$358	\$932	\$1,467	

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Revenues

GS&S revenues in 2015 decreased by \$223 million compared with 2014 primarily due to final AEW&C deliveries and lower volume in several Training Systems & Government Services (TSGS) programs, partially offset by higher volume on several Integrated Logistics (IL) programs.

GS&S revenues in 2014 decreased by \$32 million compared with 2013 primarily due to lower volume of \$277 million in IL and TSGS programs. These decreases were partially offset by higher Aircraft Modernization & Sustainment (AM&S) revenues of \$245 million primarily related to deliveries of three AEW&C Peace Eagle to Turkey in 2014.

Earnings From Operations

GS&S earnings from operations in 2015 increased by \$96 million compared with 2014 primarily due to improved performance across the segment. Net favorable cumulative contract catch-up adjustments were \$57 million higher in 2015 than in 2014 primarily due to favorable F-15 program adjustments.

GS&S earnings from operations in 2014 increased by \$119 million, or 12%, compared with 2013 primarily due to an increase of \$145 million related to improved performance in several MM&U programs, most notably the AEW&C Peace Eagle contract. Net favorable cumulative contract catch-up adjustments were \$123 million higher in 2014 than in 2013 primarily due to unfavorable adjustments on the AEW&C Peace Eagle contract in 2013.

Backlog

GS&S total backlog at December 31, 2015 was \$18,158 million, an increase of 2% reflecting current year contract awards, including C-17 support programs, Advanced Surveillance Command and Control and F-15 support programs, partially offset by revenue recognized on contracts awarded in prior years. GS&S total backlog at December 31, 2014 was \$17,852 million, which was largely unchanged from backlog of \$17,736 million at December 31, 2013.

Boeing Capital

Business Environment and Trends

BCC's gross customer financing and investment portfolio at December 31, 2015 totaled \$3,459 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 717 and 747-8F aircraft.

BCC provided customer financing of \$586 million and \$489 million during 2015 and 2014. While we may be required to fund a number of new aircraft deliveries in 2016, we expect alternative financing will be available at reasonable prices from broad and globally diverse sources.

Aircraft values and lease rates are impacted by the number and type of aircraft that are currently out of service.

Approximately 2,300 western-built commercial jet aircraft (9.5% of current world fleet) were parked at the end of 2015, including both in-production and out-of-production aircraft types. Of these parked aircraft, approximately 11% are not expected to return to service. At the end of 2014 and 2013, 9.8% and 9.2% 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.

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Results of Operations

(Dollars in millions)

Years ended December 31,	2015	2014	2013		
Revenues	\$413	\$416	\$408		
Earnings from operations	\$50	\$92	\$107		
Operating margins	12	% 22	% 26		%

Revenues

BCC segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC's revenues in 2015 are consistent with 2014. BCC's revenues in 2014 increased by \$8 million compared with 2013 primarily due to higher aircraft return condition payments of \$60 million, partially offset by a decrease in finance lease income and lower interest income.

Earnings From Operations

BCC's earnings from operations are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from operations in 2015 decreased by \$42 million compared with 2014 primarily due to higher asset impairment expense. Earnings from operations in 2014 decreased by \$15 million compared with 2013 due to \$60 million increase in asset impairment expense, partially offset by a reduction in the provision for losses on receivables, driven by a change to a customer credit rating recorded in the first quarter of 2014, in addition to lower depreciation and interest expense.

Financial Position

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

(Dollars in millions)	2015	2014
Customer financing and investment portfolio, net	\$3,449	\$3,493
Other assets, primarily cash and short-term investments	480	615
Total assets	\$3,929	\$4,108
Other liabilities, primarily deferred income taxes	\$1,099	\$1,212
Debt, including intercompany loans	2,355	2,412
Equity	475	484
Total liabilities and equity	\$3,929	\$4,108
Debt-to-equity ratio	5.0-to-1	5.0-to-1

BCC's customer financing and investment portfolio at December 31, 2015 decreased from December 31, 2014 primarily due to normal portfolio run-off, impairments and dispositions, partially offset by the increased volume of \$586 million. At December 31, 2015 and 2014, BCC had \$49 million and \$48 million of assets that were held for sale or re-lease, of which \$15 million in 2015 had either signed preliminary agreements 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 2016. We are seeking to remarket these aircraft or have the leases extended.

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BCC enters into certain transactions with Boeing, reflected in Unallocated items, eliminations and other, in the form of intercompany guarantees and other subsidies that mitigate the effects of certain credit quality or asset impairment issues on the BCC segment.

Liquidity and Capital Resources

Cash Flow Summary

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Net earnings	\$5,176	\$5,446	\$4,585
Non-cash items	2,392	2,515	2,516
Changes in working capital	1,795	897	1,078
Net cash provided by operating activities	9,363	8,858	8,179
Net cash (used)/provided by investing activities	(1,846)	2,467	(5,154)
Net cash used by financing activities	(7,920)	(8,593)	(4,249)
Effect of exchange rate changes on cash and cash equivalents	(28)	(87)	(29)
Net (decrease)/increase in cash and cash equivalents	(431)	2,645	(1,253)
Cash and cash equivalents at beginning of year	11,733	9,088	10,341
Cash and cash equivalents at end of period	\$11,302	\$11,733	\$9,088

Operating Activities Net cash provided by operating activities was \$9.4 billion during 2015, compared with \$8.9 billion during 2014 and \$8.2 billion in 2013. The increase of \$0.5 billion in 2015 was primarily due to lower inventory growth, partially offset by lower receipts of advances and progress billings. The increase of \$0.7 billion in 2014 was primarily due to higher customer advances which more than offset higher gross inventory. Our investment in gross inventories decreased by \$0.3 billion in 2015 primarily in our BDS business, largely driven by ending production of C-17 aircraft, which more than offset continued investment in commercial airplane program inventory. Our investment in gross inventories increased \$7.6 billion in 2014 and \$5.7 billion in 2013, largely driven by continued investment in commercial airplane program inventory, primarily 787 inventory. Advances and progress billings increased by \$0.4 billion in 2015, \$6.9 billion in 2014 and \$3.9 billion in 2013, primarily due to payments from Commercial Airplane customers. Discretionary contributions to our pension plans were insignificant in 2015 compared with \$0.8 billion in 2014 and \$1.5 billion in 2013.

Investing Activities Cash used by investing activities was \$1.8 billion during 2015 compared with \$2.5 billion provided during 2014 and \$5.2 billion used during 2013, largely due to changes in investments in time deposits. Net proceeds from investments were \$0.6 billion in 2015 compared with \$4.8 billion in 2014 and net contributions to investments of \$2.9 billion in 2013. In 2015, capital expenditures totaled \$2.5 billion, up from \$2.2 billion in 2014 and \$2.1 billion in 2013. We expect capital expenditures in 2016 to be consistent with 2015 due to continued investment to support growth.

Financing Activities Cash used by financing activities was \$7.9 billion during 2015, a decrease of \$0.7 billion compared with 2014 primarily due to higher new borrowings of \$0.8 billion and lower repayments of debt and distribution rights of \$0.9 billion in 2015, which more than offset higher share repurchases of \$0.8 billion and higher dividend payments of \$0.4 billion in 2015. Cash used by financing activities was \$8.6 billion during 2014, an increase of \$4.3 billion compared with 2013 primarily due to higher share repurchases of \$3.2 billion, higher dividends paid of \$0.6 billion and a decrease in proceeds from stock options exercised of \$0.8 billion in 2014, partially offset by higher new borrowings of \$0.4 billion in 2014.

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During 2015, we issued \$1.7 billion and repaid \$0.9 billion of debt. At December 31, 2015 and 2014 the recorded balance of debt was \$10.0 billion and \$9.1 billion of which \$1.2 billion and \$0.9 billion was classified as short-term. At December 31, 2015 and 2014 this includes \$2.4 billion of debt attributable to BCC, of which \$0.5 billion and \$0.1 billion was classified as short-term.

During 2015 and 2014 we repurchased 46.7 million and 46.6 million shares totaling \$6.8 billion and \$6.0 billion through our open market share repurchase program. In 2015 and 2014, we had 0.7 million shares transferred to us from employees for tax withholdings. At December 31, 2015, the amount available under the share repurchase plan, announced on December 14, 2015, totaled \$14 billion.

Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We have a commercial paper program that continues to serve as a significant potential source of short-term liquidity. Throughout 2015 and at December 31, 2015, we had no commercial paper borrowings outstanding. Currently, we have \$5.0 billion of unused borrowing capacity on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support our general corporate borrowing needs.

Financing commitments totaled \$16.3 billion and \$16.7 billion at December 31, 2015 and 2014. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. In addition, many of our non-U.S. customers finance aircraft purchases through the Export-Import Bank of the United States. Following the expiration of the bank's charter on June 30, 2015, the bank's charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank's board of directors, the bank will not be able to approve any transaction totaling more than \$10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers.

In the event we require additional funding to support strategic business opportunities, our commercial aircraft financing commitments, unfavorable resolution of litigation or other loss contingencies, or other business requirements, 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, 2015 and 2014, our pension plans were \$17.9 billion and \$17.3 billion underfunded as measured under GAAP. On an Employee Retirement Income Security Act (ERISA) basis our plans are more than 100% funded at December 31, 2015 with minimal required contributions in 2016. We expect to make contributions to our plans of approximately \$0.1 billion in 2016. We may be required to make higher contributions to our pension plans in future years.

At December 31, 2015, 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.

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Contractual Obligations

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2015, and the estimated timing thereof.

(Dollars in millions)	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt (including current portion)	\$9,922	\$1,186	\$996	\$2,358	\$5,382
Interest on debt ⁽¹⁾	5,580	459	849	718	3,554
Pension and other postretirement cash requirements	14,146	640	1,718	4,222	7,566
Capital lease obligations	157	55	76	16	10
Operating lease obligations	1,529	244	405	277	603
Purchase obligations not recorded on the Consolidated Statements of Financial Position	123,100	43,471	31,741	24,465	23,423
Purchase obligations recorded on the Consolidated Statements of Financial Position	16,580	15,358	824	125	273
Total contractual obligations ⁽²⁾	\$171,014	\$61,413	\$36,609	\$32,181	\$40,811

⁽¹⁾ Includes interest on variable rate debt calculated based on interest rates at December 31, 2015. Variable rate debt was 3% of our total debt at December 31, 2015.

⁽²⁾ Excludes income tax matters. As of December 31, 2015, our net liability for income taxes payable, including uncertain tax positions, was \$1,177 million. We are not able to reasonably estimate the timing of future cash flows related to uncertain tax positions.

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.

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.

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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 current and long-term 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 2015, we incurred no such penalties. As of December 31, 2015, we have outstanding industrial participation agreements totaling \$18.4 billion that extend through 2030. 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.

Commercial Commitments

The following table summarizes our commercial commitments outstanding as of December 31, 2015.

(Dollars in millions)	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	\$4,968	\$3,127	\$1,355	\$182	\$304
Commercial aircraft financing commitments	16,283	2,897	6,899	4,205	2,282
Total commercial commitments	\$21,251	\$6,024	\$8,254	\$4,387	\$2,586

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 11 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 20 to our Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of \$566 million at December 31, 2015. For additional information, see Note 11 to our Consolidated Financial Statements.

Income Taxes We have \$1,617 million of unrecognized tax benefits at December 31, 2015 for uncertain tax positions. For further discussion of income taxes, see Note 4 to our Consolidated Financial Statements.

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Off-Balance Sheet Arrangements

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

Non-GAAP Measures

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

Our Consolidated Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Core operating earnings, core operating margin and core earnings per share exclude the impact of certain pension and other postretirement benefit expenses that are not allocated to business segments - see Note 21 to our Consolidated Financial Statements. Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

Reconciliation of GAAP Measures to Non-GAAP Measures

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

(Dollars in millions, except per share data)

Years ended December 31,	2015	2014	2013		
Revenues	\$96,114	\$90,762	\$86,623		
Earnings from operations, as reported	\$7,443	\$7,473	\$6,562		
Operating margins	7.7	% 8.2	% 7.6	%	%
Unallocated pension and other postretirement benefit expense	\$298	\$1,387	\$1,314		
Core operating earnings (non-GAAP)	\$7,741	\$8,860	\$7,876		
Core operating margins (non-GAAP)	8.1	% 9.8	% 9.1	%	%
Diluted earnings per share, as reported	\$7.44	\$7.38	\$5.96		
Unallocated pension and other postretirement benefit expense ⁽¹⁾	\$0.28	\$1.22	\$1.11		
Core earnings per share (non-GAAP)	\$7.72	\$8.60	\$7.07		
Weighted average diluted shares (in millions)	696.1	738.0	769.5		

⁽¹⁾Earnings per share impact is presented net of the federal statutory rate of 35.0%.

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Critical Accounting Policies

Contract Accounting

Contract accounting is used to determine revenue, cost of sales, and profit predominantly by 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 where the price is generally 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 in earnings. For the year ended December 31, 2015, net unfavorable cumulative catch-up adjustments, including reach-forward losses, across all contracts decreased Earnings from operations by \$224 million. For the years ended December 31, 2014 and 2013 net favorable cumulative catch-up adjustments, including reach-forward losses, across all contracts increased Earnings from operations by \$100 million and \$242 million. 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 2015 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately \$304 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.

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.

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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 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 for inflation that is updated quarterly. 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 or deflationary 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 initial margins than established programs. In addition, actual costs incurred for earlier units in excess of the estimated average cost of all units in the program accounting quantity are included within program inventory as deferred production costs. Deferred production, unamortized tooling and other non-recurring costs are expected to be fully recovered when all units in the accounting quantity are delivered as the expected unit cost for later deliveries is below the estimated average cost as learning curve and other improvements are realized.

Due to the significance of judgment in the estimation process described above, it is reasonably possible that changes in underlying circumstances or assumptions could have a material effect on program gross margins. If the combined gross margin percentages for our commercial airplane programs had been estimated to be 1% higher or lower it would have a similar effect on the Commercial Airplane segment's operating margins. For the year-ended December 31, 2015, a 1% increase or decrease in operating margins for our Commercial Airplane segment would have a \$650 million impact on operating earnings.

The 747 is in a reach-forward loss position at December 31, 2015 while the 787 program had near breakeven margins during 2015. Absent changes in estimated revenues or costs, subsequent 747 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 as an additional reach-forward loss. If we are unable to mitigate risks associated with the 747 and 787 programs, or if we are required to change one or more of our pricing, cost or other assumptions related to these programs, we could be required to record additional reach-forward losses which could have a material effect on our reported results.

Goodwill and Indefinite-Lived Intangible Impairments

We test goodwill for impairment by performing a qualitative assessment or using a two-step impairment process. If we choose to perform a qualitative assessment, we evaluate economic, industry and company-specific factors as an initial step in assessing the fair value of operations. If we determine it is more likely than not that the carrying value of the net assets is more than the fair value of the related operations, the

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two-step impairment process is then performed; otherwise, no further testing is required. For operations where the two-step impairment process is used, we first compare 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, 2015 and determined that there is no impairment of goodwill. As of December 31, 2015, we estimated that the 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.

As of December 31, 2015 and 2014, we had \$490 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 trade names. 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 not impact the carrying value of these indefinite-lived intangible assets.

Pension Plans

The majority of our employees have earned benefits under defined benefit pension plans. Nonunion and the majority of union employees that had participated in defined benefit pension plans will transition to a company-funded defined contribution retirement savings plan in 2016. Accounting rules require an annual measurement of our projected obligation and plan assets. These measurements are based upon several assumptions, including the discount rate and the expected long-term rate of asset return. Future changes in assumptions or differences between actual and expected outcomes can significantly affect our future annual expense, projected benefit obligation and Shareholders' equity.

The following table shows the sensitivity of our pension plan liability and net periodic cost to a 25 basis point change in the discount rate as of December 31, 2015.

(Dollars in millions)	Change in discount rate Increase 25 bps	Change in discount rate Decrease 25 bps
Pension plans		
Projected benefit obligation	(\$2,128	) \$2,648
Net periodic pension cost	(129	) 152

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 2015 net periodic pension expense by \$148 million. We expect 2016 net periodic pension cost

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to decrease by approximately \$2,119 million and the portion recognized in earnings to decrease by approximately \$378 million primarily due to lower service cost and amortization of actuarial losses.

Other

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Securities Exchange Act of 1934, as amended (the “Act”), require disclosure of certain activities, transactions or dealings relating to Iran that occurred during the period covered by this report. Disclosure is required even if the activities, transactions or dealings were conducted in compliance with applicable law. We have disclosed such activities in our Quarterly Report on Form 10-Q for the second quarter of 2015 and such disclosure is incorporated herein by reference. During the fourth quarter of 2015, we agreed to sell aircraft maintenance manuals to Iran Air Tours. We generated no revenues or net profits during the fourth quarter of 2015 from these activities. These sales were authorized by a license from the U.S. Office of Foreign Assets Control (“OFAC”). Boeing applied for the OFAC license consistent with guidance from the U.S. government in connection with ongoing negotiations between the “P5+1” nations and Iran related to, among other things, the safety of Iran’s civil aviation industry. We may engage in additional activities pursuant to this license, which sales may require additional disclosure pursuant to Section 13(r) of the Act.

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. Historically, we have not experienced material gains or losses on our customer financing assets and liabilities due to interest rate changes. As of December 31, 2015, the impact over the next 12 months of a 100 basis point rise in interest rates to our pre-tax earnings would not be significant. 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 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 contracts are sensitive to changes in foreign currency exchange rates. At December 31, 2015, a 10% increase or decrease in the exchange rate in our portfolio of foreign currency contracts would have increased or decreased our unrealized losses by \$229 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.

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The Boeing Company and Subsidiaries

Consolidated Statements of Operations

(Dollars in millions, except per share data)

Years ended December 31,	2015	2014	2013
Sales of products	\$85,255	\$80,688	\$76,792
Sales of services	10,859	10,074	9,831
Total revenues	96,114	90,762	86,623
Cost of products	(73,446)	(68,551)	(65,640)
Cost of services	(8,578)	(8,132)	(7,553)
Boeing Capital interest expense	(64)	(69)	(75)
Total costs and expenses	(82,088)	(76,752)	(73,268)
Income from operating investments, net	274	287	214
General and administrative expense	(3,525)	(3,767)	(3,956)
Research and development expense, net	(3,331)	(3,047)	(3,071)
(Loss)/gain on dispositions, net	(1)	(10)	20
Earnings from operations	7,443	7,473	6,562
Other (loss)/income, net	(13)	(3)	56
Interest and debt expense	(275)	(333)	(386)
Earnings before income taxes	7,155	7,137	6,232
Income tax expense	(1,979)	(1,691)	(1,646)
Net earnings from continuing operations	5,176	5,446	4,586
Net loss on disposal of discontinued operations, net of taxes of \$0, \$0, \$0			(1)
Net earnings	\$5,176	\$5,446	\$4,585
Basic earnings per share	\$7.52	\$7.47	\$6.03
Diluted earnings per share	\$7.44	\$7.38	\$5.96

See Notes to the Consolidated Financial Statements on pages 54 – 109.

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The Boeing Company and Subsidiaries

Consolidated Statements of Comprehensive Income

(Dollars in millions)

Years ended December 31,	2015	2014	2013
Net earnings	\$5,176	\$5,446	\$4,585
Other comprehensive income/(loss), net of tax:			
Currency translation adjustments	(92	) (97	) (64
Unrealized gains on certain investments, net of tax of (\$5), \$0 and \$0	8		
Unrealized (loss)/gain on derivative instruments:			
Unrealized (loss) arising during period, net of tax of \$77, \$77, and \$42	(140	) (137	) (75
Reclassification adjustment for loss/(gain) included in net earnings, net of tax of (\$43), (\$4), and \$9	79	7	(17
Total unrealized loss on derivative instruments, net of tax	(61	) (130	) (92
Defined benefit pension plans & other postretirement benefits:			
Net actuarial gain/(loss) arising during the period, net of tax of \$402, \$2,588, and (\$3,437)	(732	) (4,612	) 6,143
Amortization of actuarial losses included in net periodic pension cost, net of tax of (\$570), (\$367), and (\$849)	1,038	661	1,516
Settlements and curtailments included in net income, net of tax of (\$27), (\$101), and (\$33)	51	180	59
Pension and postretirement benefit/(cost) related to our equity method investments, net of tax (\$2), \$15, and (\$13)	3	(27	) 24
Amortization of prior service cost included in net periodic pension cost, net of tax of (\$22), (\$12), and (\$6)	38	21	10
Prior service cost arising during the period, net of tax of (\$496), \$3, and \$41	902	(5	) (74
Total defined benefit pension plans & other postretirement benefits, net of tax	1,300	(3,782	) 7,678
Other comprehensive income/(loss), net of tax	1,155	(4,009	) 7,522
Comprehensive (loss)/income related to noncontrolling interests	(3) 10	9
Comprehensive income, net of tax	\$6,328	\$1,447	\$12,116

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The Boeing Company and Subsidiaries
Consolidated Statements of Financial Position
(Dollars in millions, except per share data)

December 31,	2015	2014
Assets		
Cash and cash equivalents	\$11,302	\$11,733
Short-term and other investments	750	1,359
Accounts receivable, net	8,713	7,729
Current portion of customer financing, net	212	190
Inventories, net of advances and progress billings	47,257	46,756
Total current assets	68,234	67,767
Customer financing, net	3,358	3,371
Property, plant and equipment, net	12,076	11,007
Goodwill	5,126	5,119
Acquired intangible assets, net	2,657	2,869
Deferred income taxes	265	317
Investments	1,284	1,154
Other assets, net of accumulated amortization of \$451 and \$479	1,408	1,317
Total assets	\$94,408	\$92,921
Liabilities and equity		
Accounts payable	\$10,800	\$10,667
Accrued liabilities	14,014	13,462
Advances and billings in excess of related costs	24,364	23,175
Short-term debt and current portion of long-term debt	1,234	929
Total current liabilities	50,412	48,233
Deferred income taxes	2,392	2,207
Accrued retiree health care	6,616	6,802
Accrued pension plan liability, net	17,783	17,182
Other long-term liabilities	2,078	1,566
Long-term debt	8,730	8,141
Shareholders' equity:		
Common stock, par value \$5.00 – 1,200,000,000 shares authorized; 1,012,261,159 shares issued	5,061	5,061
Additional paid-in capital	4,834	4,625
Treasury stock, at cost	(29,568)	(23,298)
Retained earnings	38,756	36,180
Accumulated other comprehensive loss	(12,748)	(13,903)
Total shareholders' equity	6,335	8,665
Noncontrolling interests	62	125
Total equity	6,397	8,790
Total liabilities and equity	\$94,408	\$92,921

See Notes to the Consolidated Financial Statements on pages 54 – 109.

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

Years ended December 31,	2015	2014	2013	
Cash flows – operating activities:				
Net earnings	\$5,176	\$5,446	\$4,585	
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Non-cash items –				
Share-based plans expense	189	195	206	
Depreciation and amortization	1,833	1,906	1,844	
Investment/asset impairment charges, net	167	229	96	
Customer financing valuation benefit	(5) (28) (11)
Loss on disposal of discontinued operations			1	
Loss/(gain) on dispositions, net	1	10	(20)
Other charges and credits, net	364	317	528	
Excess tax benefits from share-based payment arrangements	(157) (114) (128)
Changes in assets and liabilities –				
Accounts receivable	(1,069) (1,328) (879)
Inventories, net of advances and progress billings	(1,110) (4,330) (5,562)
Accounts payable	(238) 1,339	(298)
Accrued liabilities	2	(1,088	) 883
Advances and billings in excess of related costs	1,192	3,145	3,353	
Income taxes receivable, payable and deferred	477	1,325	1,445	
Other long-term liabilities	46	36	2	
Pension and other postretirement plans	2,470	1,186	1,720	
Customer financing, net	167	578	391	
Other	(142	) 34	23
Net cash provided by operating activities	9,363	8,858	8,179	
Cash flows – investing activities:				
Property, plant and equipment additions	(2,450) (2,236) (2,098)
Property, plant and equipment reductions	42	34	51	
Acquisitions, net of cash acquired	(31) (163) (26)
Contributions to investments	(2,036) (8,617) (15,394)
Proceeds from investments	2,590	13,416	12,453	
Purchase of distribution rights			(140)
Other	39	33		
Net cash (used)/provided by investing activities	(1,846) 2,467	(5,154)
Cash flows – financing activities:				
New borrowings	1,746	962	571	
Debt repayments	(885) (1,601) (1,434)
Repayments of distribution rights and other asset financing		(185) (280)
Stock options exercised	399	343	1,097	
Excess tax benefits from share-based payment arrangements	157	114	128	
Employee taxes on certain share-based payment arrangements	(96) (98) (63)
Common shares repurchased	(6,751) (6,001) (2,801)
Dividends paid	(2,490) (2,115) (1,467)
Other		(12)	
Net cash used by financing activities	(7,920) (8,593) (4,249)

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Effect of exchange rate changes on cash and cash equivalents	(28)	(87)	(29)
Net (decrease)/increase in cash and cash equivalents	(431)	2,645		(1,253)
Cash and cash equivalents at beginning of year	11,733		9,088		10,341	
Cash and cash equivalents at end of year	\$11,302		\$11,733		\$9,088	

See Notes to the Consolidated Financial Statements on pages 54 –109.

Table of ContentsThe Boeing Company and Subsidiaries
Consolidated Statements of Equity

(Dollars in millions, except per share data)	Boeing shareholders				Accumulated Other Comprehensive Loss	Non- controlling Interest	Total
	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings			
Balance at January 1, 2013	\$5,061	\$4,122	(\$15,937)	\$30,037	(\$17,416)	\$100	\$5,967
Net earnings				4,585		9	4,594
Other comprehensive income, net of tax of (\$4,246)					7,522		7,522
Share-based compensation and related dividend equivalents	216			(16)			200
Excess tax pools	101						101
Treasury shares issued for stock options exercised, net	109		988				1,097
Treasury shares issued for other share-based plans, net	(133)		79				(54)
Common shares repurchased			(2,801)				(2,801)
Cash dividends declared (\$2.185 per share)				(1,642)			(1,642)
Changes in noncontrolling interests						13	13
Balance at December 31, 2013	\$5,061	\$4,415	(\$17,671)	\$32,964	(\$9,894)	\$122	\$14,997
Net earnings				5,446		10	5,456
Other comprehensive loss, net of tax of \$2,199					(4,009)		(4,009)
Share-based compensation and related dividend equivalents	208			(20)			188
Excess tax pools	114						114
Treasury shares issued for stock options exercised, net	17		326				343
Treasury shares issued for other share-based plans, net	(129)		48				(81)
Common shares repurchased			(6,001)				(6,001)
Cash dividends declared (\$3.10 per share)				(2,210)			(2,210)
Changes in noncontrolling interests						(7)	(7)
Balance at December 31, 2014	\$5,061	\$4,625	(\$23,298)	\$36,180	(\$13,903)	\$125	\$8,790
Net earnings				5,176		(3)	5,173
Other comprehensive loss, net of tax of (\$686)					1,155		1,155
Share-based compensation and related dividend equivalents	214			(25)			189
Excess tax pools	158						158
Treasury shares issued for stock options exercised, net	(29)		428				399
Treasury shares issued for other share-based plans, net	(134)		53				(81)

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Common shares repurchased				(6,751)				(6,751)
Cash dividends declared (\$3.82 per share)				(2,575)				(2,575)
Changes in noncontrolling interests							(60)	(60)
Balance at December 31, 2015	\$5,061	\$4,834	(\$29,568)	\$38,756	(\$12,748)	\$62		\$6,397

See Notes to the Consolidated Financial Statements on pages 54 – 109.

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The Boeing Company and Subsidiaries

Notes to the Consolidated Financial Statements

Summary of Business Segment Data

(Dollars in millions)

Years ended December 31,

Revenues:

	2015	2014	2013
Commercial Airplanes	\$66,048	\$59,990	\$52,981
Defense, Space & Security:			
Boeing Military Aircraft	13,482	13,500	15,275
Network & Space Systems	7,751	8,003	8,512
Global Services & Support	9,155	9,378	9,410
Total Defense, Space & Security	30,388	30,881	33,197
Boeing Capital	413	416	408
Unallocated items, eliminations and other	(735)	(525)	37
Total revenues	\$96,114	\$90,762	\$86,623
Earnings from operations:			
Commercial Airplanes	\$5,157	\$6,411	\$5,795
Defense, Space & Security:			
Boeing Military Aircraft	1,318	1,301	1,501
Network & Space Systems	726	698	719
Global Services & Support	1,230	1,134	1,015
Total Defense, Space & Security	3,274	3,133	3,235
Boeing Capital	50	92	107
Unallocated items, eliminations and other	(1,038)	(2,163)	(2,575)
Earnings from operations	\$7,443	\$7,473	\$6,562
Other (loss)/income, net	(13)	(3)	56
Interest and debt expense	(275)	(333)	(386)
Earnings before income taxes	7,155	7,137	6,232
Income tax expense	(1,979)	(1,691)	(1,646)
Net earnings from continuing operations	5,176	5,446	4,586
Net loss on disposal of discontinued operations, net of taxes of \$0, \$0, \$0			(1)
Net earnings	\$5,176	\$5,446	\$4,585

This information is an integral part of the Notes to the Consolidated Financial Statements. See Note 21 for further segment results.

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The Boeing Company and Subsidiaries

Notes to the Consolidated Financial Statements

Years ended December 31, 2015, 2014 and 2013

(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.

During 2015 we adopted FASB Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Income Taxes, which requires that the Consolidated Statements of Financial Position reflect all deferred income tax assets and liabilities as non-current. The Company elected to retrospectively apply the provisions of this standard and prior year balances have been revised to reflect the current year presentation.

Standards Issued and Not Yet Implemented

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. On August 12, 2015, the FASB approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new standard as of the original effective date. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company is currently evaluating when to adopt the new standard, the impacts of adoption and the implementation approach to be used.

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.

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Revenue and Related Cost Recognition

Contract Accounting Contract accounting is used for development and production activities predominantly by 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 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. When the current estimates of total sales and costs for a contract indicate a loss, a provision for the entire loss on the contract is recognized.

Changes in estimated revenues, cost of sales and the related effect on operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percent complete. In 2015, net unfavorable cumulative catch-up adjustments, including reach-forward losses, across all contracts decreased Earnings from operations by \$224 and diluted EPS by \$0.23. In 2014 and 2013 net favorable cumulative catch-up adjustments, including reach-forward losses, across all contracts increased Earnings from operations by \$100 and \$242 and diluted EPS by \$0.10 and \$0.23. Significant adjustments during the three years ended December 31, 2015 included reach-forward losses of \$835 and \$425 on the USAF KC-46A Tanker contract recorded during 2015 and 2014.

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.

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 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.

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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. See Note 11.

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, space travel on Commercial Crew, ongoing maintenance of International Space Station, 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.

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 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 \$136, \$135 and \$160 during 2015, 2014 and 2013, respectively. Reinsurance costs related to premiums and claims paid to the reinsurance pool were \$132, \$144 and \$147 during 2015, 2014 and 2013, respectively. Revenues and costs are presented net in Cost of sales in the Consolidated Statements of Operations.

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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, and testing, as well as 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 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. Research and development expense included bid and proposal costs of \$286, \$289 and \$285 in 2015, 2014 and 2013, respectively.

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.

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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 have earned benefits under defined benefit pension plans. Nonunion and the majority of union employees that had participated in defined benefit pension plans will transition to a company-funded defined contribution retirement savings plan in 2016. 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 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.

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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 \$163 and \$241 at December 31, 2015 and 2014.

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 and supplier advances. Deferred production costs represent actual costs incurred for production of early units that exceed the estimated average cost of 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. Supplier advances represent payments for parts we have contracted to receive from suppliers in the future. As parts are received, supplier advances are amortized to work in process.

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.

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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 net realizable value. 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 in excess of the amounts required for existing contracts. If we determine the costs are probable of recovery from future orders, 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 future orders not materialize or we determine the costs are no longer probable of recovery, 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 4 to 20 years. The principal methods of depreciation are as follows: buildings and land improvements, 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 5 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.

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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 performing a qualitative assessment or using a two-step impairment process. If we choose to perform a qualitative assessment and determine it is more likely than not that the carrying value of the net assets is more than the fair value of the related operations, the two-step impairment process is then performed; otherwise, no further testing is required. For operations where the two-step impairment process is used, we first compare 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 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 trade names. 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 5 to 14 years; product know-how, from 6 to 30 years; customer base, from 3 to 19 years; distribution rights, from 3 to 27 years; and other, from 3 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.

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Investments

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

Available-for-sale securities include commercial paper, U.S. government agency securities, and corporate debt securities. Available-for-sale securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income. Realized gains and losses on available-for-sale securities are recognized based on the specific identification method. Available-for-sale securities are assessed for impairment quarterly.

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 comprehensive income 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 have agreements to purchase and sell aluminum to address long-term strategic sourcing objectives and international business requirements. These agreements are derivatives for accounting purposes but are not designated for hedge accounting treatment. We also hold certain derivative instruments for economic purposes that are not designated for hedge accounting treatment. For these aluminum agreements and for other derivative instruments not designated for hedge accounting treatment, the changes in their fair value are 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

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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.

Exposure related to trade-in commitments may take the form of:

- adjustments to revenue for the difference between the contractual trade-in price in the definitive agreement and our
- (1) best estimate of the fair value of the trade-in aircraft as of the date of such agreement, which would be recognized upon delivery of the Sale Aircraft, and/or
- charges to cost of products for adverse changes in the fair value of trade-in aircraft that occur subsequent to signing
- (2) 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 or using current published third-party aircraft valuations based on the type and age of the aircraft, adjusted for individual attributes and known conditions.

Used aircraft acquired by the Commercial Airplanes segment are included in Inventories at the lower of cost or net realizable value 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.

Customer financing Customer financing includes operating lease equipment, notes receivable, 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 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

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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 a valuation account, the balance of which is an accounting estimate of probable but unconfirmed losses. 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 collectability 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 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 month to two-year 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

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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 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 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 – Goodwill and Acquired Intangibles

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2015 and 2014 were as follows:

	Commercial Airplanes	Boeing Military Aircraft	Network & Space Systems	Global Services & Support	Total
Balance at January 1, 2014	\$2,108	\$964	\$1,513	\$458	\$5,043
Acquisitions	45		57		102
Goodwill adjustments	(22)		(4)		(26)
Balance at December 31, 2014	\$2,131	\$964	\$1,566	\$458	\$5,119
Acquisitions	6	15			21
Goodwill adjustments	(14)				(14)
Balance at December 31, 2015	\$2,123	\$979	\$1,566	\$458	\$5,126

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As of December 31, 2015 and 2014, we had indefinite-lived intangible assets with carrying amounts of \$490 relating to trade names.

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

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Distribution rights	\$2,245	\$673	\$2,245	\$550
Product know-how	503	244	494	216
Customer base	600	403	619	381
Developed technology	455	357	500	386
Other	198	157	202	148
Total	\$4,001	\$1,834	\$4,060	\$1,681

Amortization expense for acquired finite-lived intangible assets for the years ended December 31, 2015 and 2014 was \$224 and \$227. Estimated amortization expense for the five succeeding years is as follows:

	2016	2017	2018	2019	2020
Estimated amortization expense	\$211	\$204	\$185	\$154	\$145

During 2015 and 2014 we acquired \$15 and \$87 of finite-lived intangible assets, of which \$0 and \$24 related to non-cash investing and financing transactions.

Note 3 – Earnings Per Share

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

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

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

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

(In millions - except per share amounts)

Years ended December 31,	2015	2014	2013
Net earnings	\$5,176	\$5,446	\$4,585
Less: earnings available to participating securities	4	6	7
Net earnings available to common shareholders	\$5,172	\$5,440	\$4,578
Basic			
Basic weighted average shares outstanding	688.0	728.9	760.8
Less: participating securities	1.1	1.3	1.9
Basic weighted average common shares outstanding	686.9	727.6	758.9
Diluted			
Basic weighted average shares outstanding	688.0	728.9	760.8
Dilutive potential common shares ⁽¹⁾	8.1	9.1	8.7
Diluted weighted average shares outstanding	696.1	738.0	769.5
Less: participating securities	1.1	1.3	1.9
Diluted weighted average common shares outstanding	695.0	736.7	767.6
Net earnings per share:			
Basic	\$7.52	\$7.47	\$6.03
Diluted	7.44	7.38	5.96

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

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

(Shares in millions)

Years ended December 31,	2015	2014	2013
Stock options			4.8
Performance awards	5.6	5.1	4.2
Performance-based restricted stock units	2.3	1.3	

Note 4 – Income Taxes

The components of earnings before income taxes were:

Years ended December 31,	2015	2014	2013
U.S.	\$6,828	\$6,829	\$5,946
Non-U.S.	327	308	286
Total	\$7,155	\$7,137	\$6,232

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Income tax expense/(benefit) consisted of the following:

Years ended December 31,	2015	2014	2013
Current tax expense			
U.S. federal	\$2,102	\$676	(\$82)
Non-U.S.	122	91	76
U.S. state	21	69	11
Total current	2,245	836	5
Deferred tax expense			
U.S. federal	(297)	828	1,531
Non-U.S.	4	34	41
U.S. state	27	(7)	69
Total deferred	(266)	855	1,641
Total income tax expense	\$1,979	\$1,691	\$1,646

Net income tax payments were \$1,490, \$355 and \$209 in 2015, 2014 and 2013, respectively.

The following is a reconciliation of the U.S. federal statutory tax rate of 35% to our effective income tax rates:

Years ended December 31,	2015	2014	2013
U.S. federal statutory tax	35.0 %	35.0 %	35.0 %
Research and development credits ⁽¹⁾	(3.4)	(2.9)	(4.9)
Amendments to the R&E regulations ⁽²⁾			(3.4)
Tax basis adjustment ⁽³⁾		(3.6)	
U.S. manufacturing activity tax benefit	(2.9)	(1.2)	(0.6)
Tax on international activities	(0.6)	(0.2)	(0.1)
Federal audit settlements ⁽⁴⁾		(3.6)	
Other provision adjustments	(0.4)	0.2	0.4
Effective income tax rate	27.7 %	23.7 %	26.4 %

In the fourth quarter of 2015 and 2014, we recorded tax benefits of \$235 and \$188, respectively related to the

⁽¹⁾ reinstatement of the research tax credit. Research tax credits for the 2013 and 2012 tax years were both recorded in 2013.

⁽²⁾ In 2013, we recorded \$212 for the issuance of favorable regulations related to research and experimental (R&E) expenditures.

In the second quarter of 2014 we recorded an incremental tax benefit of \$265 related to the application of a 2012

⁽³⁾ Federal Court of Claims decision which held that the tax basis in certain assets could be increased and realized upon the assets' disposition (tax basis adjustment).

⁽⁴⁾ In the second quarter of 2014, tax benefits of \$116 and \$143 were recorded as a result of the 2007-2008 and 2009-2010 federal tax audit settlements.

Federal income tax audits have been settled for all years prior to 2011. The years 2011-2012 are currently being examined by the IRS. We are also subject to examination in major state and international jurisdictions for the 2001-2015 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

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Prior year balances of deferred tax (liabilities)/assets have been revised to reflect current year presentation. Significant components of our deferred tax (liabilities)/assets at December 31 were as follows:

	2015	2014
Inventory and long-term contract methods of income recognition	(10,401)	(10,156)
Pension benefits	6,303	6,145
Retiree health care benefits	2,513	2,572
Fixed assets, intangibles and goodwill (net of valuation allowance \$16 and \$18)	(1,837)	(1,782)
Other employee benefits	1,339	1,477
Customer and commercial financing	(777)	(853)
Accrued expenses and reserves	609	733
Net operating loss, credit and capital loss carryovers (net of valuation allowance of \$89 and \$63) ⁽¹⁾	216	266
Other	(92)	(292)
Net deferred tax (liabilities)/assets ⁽²⁾	(\$2,127)	(\$1,890)

(1) Of the deferred tax asset for net operating loss and credit carryovers, \$208 expires in years ending from December 31, 2016 through December 31, 2035 and \$8 may be carried over indefinitely.

(2) Included in the net deferred tax (liabilities)/assets as of December 31, 2015 and 2014 are deferred tax assets in the amounts of \$7,277 and \$8,007 related to Accumulated other comprehensive loss.

Net deferred tax (liabilities)/assets at December 31 were as follows:

	2015	2014
Deferred tax assets	\$13,128	\$14,219
Deferred tax liabilities	(15,150)	(16,028)
Valuation allowance	(105)	(81)
Net deferred tax (liabilities)/assets	(\$2,127)	(\$1,890)

The measurement of deferred tax assets is reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

As discussed in Note 1, during the year ended December 31, 2015, the Company retrospectively adopted ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The effects of the accounting change on the December 31, 2014 Statement of Financial Position were as follows:

	2014	
	Revised	As Reported
Current deferred tax asset		\$18
Non-current deferred tax asset	317	6,576
Current deferred tax liability		(8,484)
Non-current deferred tax liability	(2,207)	
Net deferred tax (liabilities)/assets	(\$1,890)	(\$1,890)

We have provided for U.S. deferred income taxes and foreign withholding tax in the amount of \$35 on undistributed earnings not considered indefinitely reinvested in our non-U.S. subsidiaries. We have not provided for U.S. deferred income taxes or foreign withholding tax on the remainder of undistributed earnings from our non-U.S. subsidiaries of approximately \$700 because such earnings are considered to

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be indefinitely reinvested and it is not practicable to estimate the amount of tax that may be payable upon distribution. As of December 31, 2015 and 2014, the amounts accrued for the payment of income tax-related interest and penalties included in the Consolidated Statements of Financial Position were not significant. The amounts of interest benefit included in the Consolidated Statements of Operations were not significant for the years ended December 31, 2015, 2014 and 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2015	2014	2013
Unrecognized tax benefits – January 1	\$1,312	\$1,141	\$1,055
Gross increases – tax positions in prior periods	38	403	10
Gross decreases – tax positions in prior periods	(25	) (251	) (125
Gross increases – current-period tax positions	292	217	202
Gross decreases – current-period tax positions			(1
Settlements		(197)
Lapse of statute of limitations		(1)
Unrecognized tax benefits – December 31	\$1,617	\$1,312	\$1,141

As of December 31, 2015, 2014 and 2013, the total amount of unrecognized tax benefits was \$1,617, \$1,312 and \$1,141, respectively, of which \$1,479, \$1,180 and \$1,018 would affect the effective tax rate, if recognized. As of December 31, 2015, these amounts are primarily associated with U.S. federal tax issues such as the amount of research tax credits claimed, the U.S. manufacturing activity tax benefit, tax basis adjustments and U.S. taxation of foreign earnings. Also included in these amounts are accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions and the amount of state tax credits claimed.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months we will resolve the matters presently under consideration for the 2011-2012 tax years with the IRS. Depending on the timing and outcome of that audit settlement, unrecognized tax benefits could decrease by up to \$115 based on current estimates.

Note 5 – Accounts Receivable, net

Accounts receivable at December 31 consisted of the following:

	2015	2014
U.S. government contracts	\$4,864	\$4,281
Commercial Airplanes	2,250	1,749
Defense, Space & Security customers ⁽¹⁾	889	1,018
Reinsurance receivables	550	512
Other	254	296
Less valuation allowance	(94) (127
Total	\$8,713	\$7,729

⁽¹⁾ Excludes U.S. government contracts

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The following table summarizes our accounts receivable under long-term contracts that were unbillable or related to outstanding claims as of December 31:

	Unbillable		Claims	
	2015	2014	2015	2014
Current	\$2,024	\$2,306		\$29
Expected to be collected after one year	2,001	1,408	\$70	73
Total	\$4,025	\$3,714	\$70	\$102

Under contract accounting unbillable receivables on long-term contracts arise when the sales or revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract as of the balance sheet date. Any adjustment for the credit quality of unbillable receivables, if required, would be recorded as a direct reduction of revenue. Factors considered in assessing the collectability of unbillable receivables include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy. Unbillable receivables related to commercial customers expected to be collected after one year were \$178 and \$172 at December 31, 2015 and 2014. Accounts receivable related to claims are items that we believe are earned, but are subject to uncertainty concerning their determination or ultimate realization.

Accounts receivable as of December 31, 2015, includes \$104 of unbillable receivables on a long-term contract with New LightSquared, LLC (LightSquared) related to the construction of two commercial satellites. One of the satellites has launched and has been accepted by the customer, and the other is substantially complete but remains in Boeing's possession. On May 14, 2012, LightSquared filed for Chapter 11 bankruptcy protection. On December 7, 2015, LightSquared exited Chapter 11 bankruptcy protection and fully assumed the Boeing contract. We do not expect to incur losses on these receivables.

Accounts receivable, other than those described above, expected to be collected after one year are not material.

Note 6 – Inventories

Inventories at December 31 consisted of the following:

	2015	2014
Long-term contracts in progress	\$13,858	\$13,381
Commercial aircraft programs	55,230	55,220
Commercial spare parts, used aircraft, general stock materials and other	6,673	7,421
Inventory before advances and progress billings	75,761	76,022
Less advances and progress billings	(28,504)	(29,266)
Total	\$47,257	\$46,756

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. At December 31, 2015 and 2014, the inventory balance was \$120 (net of advances of \$310) and \$154 (net of advances of \$322). At December 31, 2015, \$176 of this inventory related to unsold launches. See Note 12.

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Included in inventories are capitalized precontract costs of \$732 at December 31, 2015, primarily related to KC-46A Tanker and \$1,281 at December 31, 2014, primarily related to C-17. See Note 11.

Commercial Aircraft Programs

At December 31, 2015 and 2014, commercial aircraft programs inventory included the following amounts related to the 787 program: \$34,656 and \$33,163 of work in process (including deferred production costs of \$28,510 and \$26,149), \$2,551 and \$2,257 of supplier advances, and \$3,890 and \$3,801 of unamortized tooling and other non-recurring costs. At December 31, 2015, \$23,721 of 787 deferred production costs, unamortized tooling and other non-recurring costs are expected to be recovered from units included in the program accounting quantity that have firm orders and \$8,679 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At December 31, 2015 and 2014, commercial aircraft programs inventory included the following amounts related to the 747 program: \$942 and \$1,741 of deferred production costs, net of reach-forward losses, and \$377 and \$476 of unamortized tooling costs. At December 31, 2015, \$342 of 747 deferred production and unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders and \$977 is expected to be recovered from units included in the program accounting quantity that represent expected future orders. At December 31, 2015 we have a number of completed 747 aircraft in work in process inventory that we expect to recover from future orders.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling \$3,166 and \$3,341 at December 31, 2015 and 2014.

Used aircraft in inventories at Commercial Airplanes totaled \$267 and \$275 at December 31, 2015 and 2014.

Note 7 – Customer Financing

Customer financing primarily relates to the Boeing Capital (BCC) segment and consisted of the following at December 31:

	2015	2014
Financing receivables:		
Investment in sales-type/finance leases	\$1,620	\$1,535
Notes	256	370
Total financing receivables	1,876	1,905
Operating lease equipment, at cost, less accumulated depreciation of \$338 and \$571	1,710	1,677
Gross customer financing	3,586	3,582
Less allowance for losses on receivables	(16)	(21)
Total	\$3,570	\$3,561

The components of investment in sales-type/finance leases at December 31 were as follows:

	2015	2014
Minimum lease payments receivable	\$1,537	\$1,475
Estimated residual value of leased assets	530	521
Unearned income	(447)	(461)
Total	\$1,620	\$1,535

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Operating lease equipment primarily includes large commercial jet aircraft and regional jet aircraft. At December 31, 2015 and 2014, operating lease equipment included \$49 and \$48 available for sale or re-lease. At December 31, 2015 and 2014, we had firm lease commitments for \$15 and \$0 of this equipment.

Financing receivable balances evaluated for impairment at December 31 were as follows:

	2015	2014
Individually evaluated for impairment	\$86	\$86
Collectively evaluated for impairment	1,790	1,819
Total financing receivables	\$1,876	\$1,905

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. As of December 31, 2015 and 2014, we had no material receivables that were greater than 30 days past due and we had no impaired customer financing receivables during 2015 and 2014.

Income recognition is generally suspended for financing receivables at the date full recovery of income and principal becomes not probable. Income is recognized when financing receivables become contractually current and performance is demonstrated by the customer. For the year ended December 31, 2013, interest income recognized on such receivables was \$30, and the average recorded investment in impaired financing receivables was \$376.

The change in the allowance for losses on financing receivables for the years ended December 31, 2015, 2014 and 2013, consisted of the following:

	2015	2014	2013
Beginning balance - January 1	(\$21)	(\$49)	(\$60)
Customer financing valuation benefit	5	28	11
Ending balance - December 31	(\$16)	(\$21)	(\$49)
Collectively evaluated for impairment	(\$16)	(\$21)	(\$49)

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

Our financing receivable balances at December 31 by internal credit rating category are shown below:

Rating categories	2015	2014
BBB	\$973	\$1,055
BB	536	
B	258	633
CCC	23	131
Other	86	86
Total carrying value of financing receivables	\$1,876	\$1,905

At December 31, 2015, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 16%, 10% and 2% to the exposure associated with those receivables.

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Customer Financing Exposure

Customer financing is collateralized by security in the related asset. The value of the collateral is closely tied to commercial airline performance and overall market conditions and may be subject to reduced valuation with market decline. Declines in collateral values are also a significant driver of our allowance for losses. Generally, out-of-production aircraft have experienced greater collateral value declines than in-production aircraft.

Our customer financing portfolio is primarily collateralized by out-of-production aircraft. The majority of customer financing carrying values are concentrated in the following aircraft models at December 31:

	2015	2014
717 Aircraft (\$372 and \$421 accounted for as operating leases)	\$1,415	\$1,562
747 Aircraft (Accounted for as operating leases)	1,038	601
MD-80 Aircraft (Accounted for as sales-type finance leases)	314	358
757 Aircraft (\$48 and \$349 accounted for as operating leases)	270	370
767 Aircraft (\$84 and \$47 accounted for as operating leases)	185	158
737 Aircraft (\$115 and \$127 accounted for as operating leases)	115	156
MD-11 Aircraft (Accounted for as operating leases)	35	114

Charges related to customer financing asset impairment for the years ended December 31 were as follows:

	2015	2014	2013
Boeing Capital	\$162	\$139	\$67
Other Boeing		45	14
Total	\$162	\$184	\$81

Scheduled receipts on customer financing are as follows:

Year	2016	2017	2018	2019	2020	Beyond 2020
Principal payments on notes receivable	\$54	\$38	\$104	\$56	\$4	
Sales-type/finance lease payments receivable	255	231	220	207	174	\$450
Operating lease equipment payments receivable	593	120	100	86	71	357

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Note 8 – Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	2015	2014
Land	\$536	\$560
Buildings and land improvements	12,397	11,767
Machinery and equipment	13,187	12,867
Construction in progress	2,242	1,502
Gross property, plant and equipment	28,362	26,696
Less accumulated depreciation	(16,286)	(15,689)
Total	\$12,076	\$11,007

Depreciation expense was \$1,357, \$1,414 and \$1,338 for the years ended December 31, 2015, 2014 and 2013, respectively. Interest capitalized during the years ended December 31, 2015, 2014 and 2013 totaled \$158, \$102 and \$87, respectively.

Rental expense for leased properties was \$267, \$277 and \$287, for the years ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, minimum rental payments under capital leases aggregated \$157. Minimum rental payments under operating leases with initial or remaining terms of one year or more aggregated \$1,515, net of sublease payments of \$13 at December 31, 2015. Payments due under operating and capital leases net of sublease amounts and non-cancellable future rentals during the next five years are as follows:

	2016	2017	2018	2019	2020
Minimum operating lease payments, net of sublease amounts	\$240	\$217	\$182	\$157	\$117
Minimum capital lease payments	55	47	29	12	4

Accounts payable related to purchases of property, plant and equipment were \$502 and \$299 for the years ended December 31, 2015 and 2014.

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Note 9 – Investments

Our investments, which are recorded in Short-term and other investments or Investments, consisted of the following at December 31:

	2015	2014
Time deposits	\$456	\$1,295
Pledged money market funds ⁽¹⁾	38	38
Available-for-sale investments	244	7
Equity method investments ⁽²⁾	1,230	1,114
Restricted cash ⁽³⁾	31	26
Other investments	35	33
Total	\$2,034	\$2,513

(1) Reflects amounts pledged in lieu of letters of credit as collateral in support of our workers' compensation programs. These funds can become available within 30 days notice upon issuance of letters of credit.

(2) Dividends received were \$239 and \$293 during 2015 and 2014. Retained earnings at December 31, 2015 include undistributed earnings from our equity method investments of \$251.

(3) Restricted to pay certain claims related to workers' compensation and life insurance premiums for certain employees.

Equity Method Investments

Our equity method investments consisted of the following as of December 31:

	Segment	Ownership Percentages	Investment Balance	
			2015	2014
United Launch Alliance	Network & Space Systems (N&SS)	50%	\$908	\$916
Other	Commercial Airplanes, N&SS and Global Services & Support (GS&S)		322	198
Total equity method investments			\$1,230	\$1,114

Note 10 – Other Assets

Sea Launch

At December 31, 2015 and 2014, Other assets included \$356 of receivables related to our former investment in the Sea Launch venture which became payable by certain Sea Launch partners following Sea Launch's bankruptcy filing in June 2009. The \$356 includes \$147 related to a payment made by us under a bank guarantee on behalf of Sea Launch and \$209 related to loans (partner loans) we made to Sea Launch. The net amounts owed to Boeing by each of the partners are as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia – \$223, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – \$89 and KB Yuzhnoye of Ukraine – \$44.

Although each partner is contractually obligated to reimburse us for its share of the bank guarantee, the Russian and Ukrainian partners have raised defenses to enforcement and contested our claims. On February 1, 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners of the \$147 bank guarantee payment and the \$209 partner loan obligations. On September 28, 2015, the district court granted summary judgment in

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Boeing's favor on all claims against the other partners. Further proceedings will determine the final damage amount, including potential interest payments. If the partners decide to appeal or seek reconsideration of the district court's ruling additional proceedings would ensue. Prior to these proceedings, we had filed a Notice of Arbitration with the Stockholm Chamber of Commerce seeking reimbursement from the other partners for a portion of these amounts. In 2010, the arbitrator ruled that the Stockholm Chamber of Commerce lacked jurisdiction to hear the matter, which ruling has been on appeal in the Swedish appellate courts since mid-2014. During the fourth quarter of 2015, the Supreme Court of Sweden confirmed our right to pursue this appeal in the Swedish appellate courts. We believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement of \$147 related to our payment under the bank guarantee and \$209 related to partner loans made to Sea Launch, we could incur additional charges. Our current assessment as to the collectability of these receivables takes into account the current economic conditions in Russia and Ukraine, although we will continue to monitor the situation.

Spirit AeroSystems

As of December 31, 2015, Other assets included \$140 of receivables related to an indemnification from Spirit AeroSystems, Inc. (Spirit), for costs incurred related to pension and retiree medical obligations of former Boeing employees that were subsequently employed by Spirit. During the fourth quarter of 2014, Boeing filed a complaint against Spirit in Delaware Superior Court seeking to enforce our rights to indemnification and to recover from Spirit amounts incurred by Boeing for pension and retiree medical obligations. We expect to fully recover from Spirit and do not expect to incur any losses.

Note 11 – Liabilities, Commitments and Contingencies

Accrued Liabilities

Accrued liabilities at December 31 consisted of the following:

	2015	2014
Accrued compensation and employee benefit costs	\$5,624	\$5,868
Environmental	566	601
Product warranties	1,485	1,504
Forward loss recognition	757	414
Dividends payable	721	637
Income Taxes Payable	262	119
Other	4,599	4,319
Total	\$14,014	\$13,462

Environmental

The following table summarizes environmental remediation activity during the years ended December 31, 2015 and 2014.

	2015	2014
Beginning balance – January 1	\$601	\$649
Reductions for payments made	(78)	(89)
Changes in estimates	43	41
Ending balance – December 31	\$566	\$601

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The liabilities recorded represent our best estimate or the low end of a range of reasonably possible costs expected to be incurred to remediate sites, including operation and maintenance over periods of up to 30 years. It is reasonably possible that we may incur charges that exceed these recorded amounts because of regulatory agency orders and directives, changes in laws and/or regulations, higher than expected costs and/or the discovery of new or additional contamination. As part of our estimating process, we develop a range of reasonably possible alternate scenarios that includes the high end of a range of reasonably possible cost estimates for all remediation sites for which we have sufficient information based on our experience and existing laws and regulations. There are some potential remediation obligations where the costs of remediation cannot be reasonably estimated. At December 31, 2015 and 2014, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by \$853 and \$874.

Product Warranties

The following table summarizes product warranty activity recorded during the years ended December 31, 2015 and 2014.

	2015	2014
Beginning balance – January 1	\$1,504	\$1,570
Additions for current year deliveries	421	566
Reductions for payments made	(323)	(432)
Changes in estimates	(117)	(200)
Ending balance - December 31	\$1,485	\$1,504

Commercial Aircraft Commitments

In conjunction with signing definitive agreements for the sale of new aircraft (Sale Aircraft), we have entered into trade-in commitments with certain customers that give them the right to trade in used aircraft at a specified price upon the purchase of Sale Aircraft. The probability that trade-in commitments will be exercised is determined by using both quantitative information from valuation sources and qualitative information from other sources. The probability of exercise is assessed quarterly, or as events trigger a change, and takes into consideration the current economic and airline industry environments. Trade-in commitments, which can be terminated by mutual consent with the customer, may be exercised only during the period specified in the agreement, and require advance notice by the customer.

Trade-in commitment agreements at December 31, 2015 have expiration dates from 2016 through 2026. At December 31, 2015 and 2014, total contractual trade-in commitments were \$1,585 and \$2,392. As of December 31, 2015 and 2014, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling \$240 and \$446 and the fair value of the related trade-in aircraft was \$240 and \$446.

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Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, totaled \$16,283 and \$16,723 as of December 31, 2015 and 2014. The estimated earliest potential funding dates for these commitments as of December 31, 2015 are as follows:

	Total
2016	\$2,897
2017	3,664
2018	3,235
2019	2,884
2020	1,321
Thereafter	2,282
	\$16,283

As of December 31, 2015, \$15,919 of these financing commitments related to customers we believe have less than investment-grade credit. We have concluded that no reserve for future potential losses is required for these financing commitments based upon the terms, such as collateralization and interest rates, under which funding would be provided.

Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately \$4,968 and \$3,985 as of December 31, 2015 and 2014.

Commitments to ULA

We and Lockheed Martin Corporation have each committed to provide ULA with additional capital contributions in the event ULA does not have sufficient funds to make a required payment to us under an inventory supply agreement. As of December 31, 2015, ULA's total remaining obligation to Boeing under the inventory supply agreement was \$120. See Note 6.

C-17

Production of the C-17 aircraft ended in the fourth quarter of 2015. At December 31, 2015, one aircraft remained unsold, while our backlog includes international orders for four C-17 aircraft that are scheduled for delivery in 2016. During 2015 we received orders for six C-17 aircraft and we believe it is probable that we will receive an order for the remaining unsold aircraft from an international customer. Should an order not materialize we could incur charges to write down inventory.

F/A-18

At December 31, 2015, our backlog included 48 F/A-18 aircraft under contract with the U.S. Navy. The orders in backlog include an order for 15 aircraft finalized in October 2015. The Consolidated Appropriations Act, 2016, passed in December 2015, funds 12 additional F/A-18 aircraft that, combined with the orders in backlog, would complete production in mid-2018. The President's Fiscal Year 2017 Budget request submitted in February 2016 includes funding for two additional F/A-18 aircraft. We are continuing to work with our U.S. customers as well as international customers to secure additional orders that would extend the program beyond 2018.

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Should additional orders not materialize, it is reasonably possible that we will decide to end production of the F/A-18 in 2018. We are still evaluating the full financial impact of a potential production shutdown, including any recovery that may be available from the U.S. government.

KC-46A Tanker

We have also begun work on low rate initial production aircraft for the U.S. Air Force (USAF). The USAF is expected to authorize two low rate initial production lots in 2016 for a total of 19 aircraft, subject to satisfactory progress being made on the Engineering, Manufacturing and Development contract. At December 31, 2015, we had approximately \$429 of capitalized precontract costs and \$1,589 of potential termination liabilities to suppliers associated with the KC-46A Tanker.

Company Owned Life Insurance

McDonnell Douglas Corporation insured its executives with Company Owned Life Insurance (COLI), which are life insurance policies with a cash surrender value. Although we do not use COLI currently, these obligations from the merger with McDonnell Douglas are still a commitment at this time. We have loans in place to cover costs paid or incurred to carry the underlying life insurance policies. As of December 31, 2015 and 2014, the cash surrender value was \$487 and \$466 and the total loans were \$456 and \$439. As we have the right to offset the loans against the cash surrender value of the policies, we present the net asset in Other assets on the Consolidated Statements of Financial Position as of December 31, 2015 and 2014.

United States Government Defense Environment Overview

The enactment of The Bipartisan Budget Act of 2015 in November 2015 established overall defense spending levels for FY2016 and FY2017. However, uncertainty remains with respect to levels of defense spending for FY2018 and beyond, including risk of future sequestration cuts. Significant uncertainty also continues with respect to program-level appropriations for the U.S. Department of Defense (U.S. DoD) and other government agencies, including the National Aeronautics and Space Administration, within the overall budgetary framework described above. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows.

In addition to the risks described above, if Congress is unable to pass appropriations bills in a timely manner, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders.

KC-46A Tanker and BDS Fixed-Price Development Contracts

Fixed-price development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work. BDS fixed-price contracts with significant development work include Commercial Crew, Saudi F-15, USAF KC-46A Tanker and commercial and military satellites. The operational and technical complexities of these contracts create financial risk, which could trigger termination provisions, order cancellations or other financially significant exposure. Changes to cost and revenue estimates could result in lower margins or material charges for reach-forward losses. For example, during the second quarter of 2015, higher estimated costs to complete the KC-46A Tanker contract for the USAF resulted in a reach-forward loss of \$835.

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Recoverable Costs on Government Contracts

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

Russia/Ukraine

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

747 Program

During the fourth quarter of 2015, we recorded a charge of \$885 to recognize a reach-forward loss on the 747 program primarily due to slower than expected growth in global cargo markets, resulting in market and pricing pressures and fewer orders than anticipated driving reductions in our planned production rates. The charge is primarily related to lower anticipated revenues reflecting ongoing pricing and market pressures as well as higher estimated costs due to the reduction in the production rate from 1.0 per month to 0.5 per month in September 2016. We currently plan to return to a rate of 1.0 per month in 2019. We have a number of completed aircraft in inventory as well as unsold production positions and we remain focused on obtaining additional orders and implementing cost-reduction efforts. If we are unable to obtain sufficient orders in 2016 and/or market, production and other risks cannot be mitigated, the program could face an additional reach-forward loss that may be material.

787 Program

During 2015 the 787 program continued to have near breakeven gross margins. The combination of production challenges, change incorporation on early build aircraft, schedule delays, customer and supplier impacts and changes to price escalation factors has created significant pressure on program profitability. If risks related to this program, including risks associated with planned production rate increases or introducing and manufacturing the 787-10 derivative as scheduled cannot be mitigated, the program could face additional customer claims and/or supplier assertions, as well as a reach-forward loss that may be material.

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Note 12 – Arrangements with Off-Balance Sheet Risk

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

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

	Maximum Potential Payments		Estimated Proceeds from Collateral/ Recourse		Carrying Amount of Liabilities	
	2015	2014	2015	2014	2015	2014
December 31,						
Contingent repurchase commitments	\$1,529	\$1,375	\$1,510	\$1,364	\$7	\$5
Indemnifications to ULA:						
Contributed Delta program launch inventory	107	114				
Contract pricing	261	261			7	7
Other Delta contracts	231	150			5	
Other indemnifications		63				20
Credit guarantees	30	30	27	27	2	2

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

Indemnifications to ULA In 2006, we agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of \$1,360 of Boeing Delta launch program inventory included in contributed assets plus \$1,860 of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed \$1,253 of the \$1,360 of inventory that was contributed by us and has yet to consume \$107. Under the inventory supply agreement, we have recorded revenues and cost of sales of \$1,367 through December 31, 2015. ULA has made payments of \$1,740 to us under the inventory supply agreement and we have made \$71 of indemnification payments to ULA.

We agreed to indemnify ULA against potential losses that ULA may incur in the event ULA is unable to obtain certain additional contract pricing from the USAF for four satellite missions. We believe ULA is entitled to additional contract pricing. In December 2008, ULA submitted a claim to the USAF to re-price the contract value for two satellite missions. In March 2009, the USAF issued a denial of that claim. In June 2009, ULA filed a notice of appeal, and in October 2009, ULA filed a complaint before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of the two satellite missions. In September 2009, the USAF exercised its option for a third satellite mission. During the third quarter of 2010, ULA submitted a claim to the USAF to re-price the contract value of the third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. In March 2011, ULA filed a notice of appeal before the ASBCA, seeking to re-price the third mission. On November 20, 2013, the ASBCA denied USAF motions for summary judgment against ULA in large part, leaving ULA’s claims against the USAF substantially intact. The hearing before the ASBCA concluded on December 20, 2013. The parties filed their final post-hearing briefs in May 2014. The ASBCA may now issue a decision at any time. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for an

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indemnification payment up to \$261 and may record up to \$277 in pre-tax losses associated with the three missions. Potential payments for Other Delta contracts include \$85 related to deferred support costs and \$91 related to deferred production costs. In June 2011, the Defense Contract Management Agency (DCMA) notified ULA that it had determined that \$271 of deferred support costs are not recoverable under government contracts. In December 2011, the DCMA notified ULA of the potential non-recoverability of an additional \$114 of deferred production costs. ULA and Boeing believe that all costs are recoverable and in November 2011, ULA filed a certified claim with the USAF for collection of deferred support and production costs. The USAF issued a final decision denying ULA's certified claim in May 2012. On June 14, 2012, Boeing and ULA filed a suit in the Court of Federal Claims seeking recovery of the deferred support and production costs from the U.S. government. On November 9, 2012, the U.S. government filed an answer to our claim and asserted a counterclaim for credits that it alleges were offset by deferred support cost invoices. We believe that the U.S. government's counterclaim is without merit, and have filed an answer challenging it on multiple grounds. The litigation is in the discovery phase and the Court has not yet set a trial date. If, contrary to our belief, it is determined that some or all of the deferred support or production costs are not recoverable, we could be required to record pre-tax losses and make indemnification payments to ULA for up to \$317 of the costs questioned by the DCMA.

Other Indemnifications In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our Commercial Airplanes facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. We are unable to assess the potential number of future claims that may be asserted under these indemnifications, nor the amounts thereof (if any). As a result, we cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded. To the extent that claims have been made under these indemnities and/or are probable and reasonably estimable, liabilities associated with these indemnities are included in the environmental liability disclosure in Note 11.

Credit Guarantees We have issued credit guarantees, principally to facilitate the sale and/or financing of commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that lease or loan payments are not made by the original lessee or debtor or certain specified services are not performed. A substantial portion of these guarantees has been extended on behalf of original lessees or debtors with less than investment-grade credit. Our commercial aircraft credit guarantees are collateralized by the underlying commercial aircraft and certain other assets. Current outstanding credit guarantees expire within the next five years.

Industrial Revenue Bonds

Industrial Revenue Bonds (IRB) issued by the City of Wichita and St. Louis County were used to finance the purchase and/or construction of real and personal property at our Wichita and St. Louis sites. Tax benefits associated with IRBs include a ten-year property tax abatement and a sales tax exemption from the Kansas Department of Revenue, and a twelve-year property tax abatement and sales tax exemption from St. Louis County. We record these properties on our Consolidated Statements of Financial Position, along with capital lease obligations to repay the proceeds of the IRBs. We have also purchased the IRBs and therefore are the bondholders as well as the borrower/lessee of the properties purchased with the IRB proceeds.

The capital lease obligations and IRB assets are recorded net in the Consolidated Statements of Financial Position. As of December 31, 2015 and 2014, the assets and liabilities associated with the City of Wichita and St. Louis County IRBs were \$584 and \$638.

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Note 13 – Debt
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