BOEING CO
Form 10-Q
July 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-442
THE BOEING COMPANY
(Exact name of registrant as specified in its charter)

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

(312) 544-2000
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 18, 2018, there were 574,508,314 shares of common stock, $5.00 par value, issued and outstanding.

THE BOEING COMPANY
FORM 10-Q
For the Quarter Ended June 30, 2018
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Part I. Financial Information
Item 1. Financial Statements
The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Dollars in millions, except per share data)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Sales of products	$42,385	$39,885	$21,565	$20,518
Sales of services	5,255	5,127	2,693	2,533
Total revenues	47,640	45,012	24,258	23,051
Cost of products	(34,252)	(32,886)	(17,436)	(16,824)
Cost of services	(4,075)	(3,863)	(2,083)	(1,865)
Boeing Capital interest expense	(33)	(26)	(17)	(13)
Total costs and expenses	(38,360)	(36,775)	(19,536)	(18,702)
	9,280	8,237	4,722	4,349
Income from operating investments, net	80	120	6	39
General and administrative expense	(2,191)	(1,972)	(1,194)	(1,043)
Research and development expense, net	(1,591)	(1,649)	(827)	(813)
Gain/(loss) on dispositions, net	7		3	(2)
Earnings from operations	5,585	4,736	2,710	2,530
Other income/(loss), net	51	51	(15)	25
Interest and debt expense	(211)	(180)	(109)	(93)
Earnings before income taxes	5,425	4,607	2,586	2,462
Income tax expense	(752)	(1,279)	(390)	(713)
Net earnings	$4,673	$3,328	$2,196	1,749
Basic earnings per share	$7.97	$5.47	$3.77	$2.91
Diluted earnings per share	$7.88	$5.41	$3.73	$2.87
Cash dividends paid per share	$3.42	$2.84	$1.71	$1.42
Weighted average diluted shares (millions)	592.9	615.3	588.7	609.6

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Net earnings	$4,673	$3,328	$2,196	$1,749
Other comprehensive income, net of tax:				
Currency translation adjustments	(57)	77	(84)	43
Unrealized gain/(loss) on certain investments, net of tax of ($1), $0, ($1) and $1	3		1	(1)
Unrealized gain on derivative instruments:				
Unrealized (loss)/gain arising during period, net of tax of $26, ($39), $26 and ($11)	(93)	71	(91)	19
Reclassification adjustment for losses included in net earnings, net of tax of ($2), ($19), ($1) and ($10)	10	34	6	18
Total unrealized gain on derivative instruments, net of tax	(83)	105	(85)	37
Defined benefit pension plans and other postretirement benefits:				
Amortization of prior service credits included in net periodic pension cost, net of tax of $20, $31, $10 and $15	(71)	(57)	(35)	(29)
Net actuarial gain arising during the period, net of tax of $0, ($1), $0 and $0	1	3	1	
Amortization of actuarial losses included in net periodic pension cost, net of tax of ($122), ($145), ($62) and ($73)	438	263	219	131
Settlements and curtailments included in net income, net of tax of ($3), $0, ($3) and $0	6		6	
Pension and postretirement cost related to our equity method investments, net of tax of $1, $1, $0 and $0	(3)	(2)		
Total defined benefit pension plans and other postretirement benefits, net of tax	371	207	191	102
Other comprehensive income, net of tax	234	389	23	181
Comprehensive income related to noncontrolling interests	(10)	(1)	(9)	(1)
Comprehensive income, net of tax	$4,897	$3,716	$2,210	$1,929

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions, except per share data)	June 30 2018	December 31 2017
Assets		
Cash and cash equivalents	$8,121	$8,813
Short-term and other investments	1,649	1,179
Accounts receivable, net	2,823	2,894
Unbilled receivables, net	9,868	8,194
Current portion of customer financing, net	294	309
Inventories	61,250	61,388
Other current assets	2,396	2,417
Total current assets	86,401	85,194
Customer financing, net	2,817	2,756
Property, plant and equipment, net of accumulated depreciation of $18,137 and $17,641	12,605	12,672
Goodwill	5,550	5,559
Acquired intangible assets, net	2,494	2,573
Deferred income taxes	325	321
Investments	1,203	1,260
Other assets, net of accumulated amortization of $523 and $482	1,800	2,027
Total assets	$113,195	$112,362
Liabilities and equity		
Accounts payable	$12,904	$12,202
Accrued liabilities	12,240	13,069
Advances and progress billings	50,970	48,042
Short-term debt and current portion of long-term debt	1,611	1,335
Total current liabilities	77,725	74,648
Deferred income taxes	1,900	2,188
Accrued retiree health care	5,444	5,545
Accrued pension plan liability, net	16,118	16,471
Other long-term liabilities	2,875	2,015
Long-term debt	10,507	9,782
Shareholders’ equity:		
Common stock, par value $5.00 – 1,200,000,000 shares authorized; 1,012,261,159 shares issued	5,061	5,061
Additional paid-in capital	6,676	6,804
Treasury stock, at cost - 436,377,479 and 421,222,326 shares	(49,342)	(43,454)
Retained earnings	52,303	49,618
Accumulated other comprehensive loss	(16,139)	(16,373)
Total shareholders’ equity	(1,441)	1,656
Noncontrolling interests	67	57
Total equity	(1,374)	1,713
Total liabilities and equity	$113,195	$112,362

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30	
	2018	2017
Cash flows – operating activities:		
Net earnings	$4,673	$3,328
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash items –		
Share-based plans expense	98	98
Depreciation and amortization	1,008	956
Investment/asset impairment charges, net	44	46
Customer financing valuation (benefit)/expense	(2)	5
Gain on dispositions, net	(7)	
Other charges and credits, net	112	135
Changes in assets and liabilities –		
Accounts receivable	62	(163)
Unbilled receivables	(1,675)	(950)
Advances and progress billings	2,931	3,916
Inventories	408	(1,036)
Other current assets	2	(148)
Accounts payable	682	419
Accrued liabilities	(922)	(570)
Income taxes receivable, payable and deferred	269	774
Other long-term liabilities	(65)	(18)
Pension and other postretirement plans	(57)	13
Customer financing, net	(97)	342
Other	352	(100)
Net cash provided by operating activities	7,816	7,047
Cash flows – investing activities:		
Property, plant and equipment additions	(770)	(905)
Property, plant and equipment reductions	41	25
Contributions to investments	(1,537)	(1,820)
Proceeds from investments	1,028	1,441
Purchase of distribution rights	(56)	(131)
Other	(1)	7
Net cash used by investing activities	(1,295)	(1,383)
Cash flows – financing activities:		
New borrowings	3,648	874
Debt repayments	(2,708)	(56)
Contributions from noncontrolling interests	20	
Stock options exercised	61	240
Employee taxes on certain share-based payment arrangements	(236)	(112)
Common shares repurchased	(5,965)	(5,000)
Dividends paid	(1,997)	(1,720)
Net cash used by financing activities	(7,177)	(5,774)
Effect of exchange rate changes on cash and cash equivalents, including restricted	(36)	52
Net decrease in cash & cash equivalents, including restricted	(692)	(58)

Cash & cash equivalents, including restricted, at beginning of year	8,887	8,869
Cash & cash equivalents, including restricted, at end of period	8,195	8,811
Less restricted cash & cash equivalents, included in Investments	74	74
Cash and cash equivalents at end of period	$8,121	$8,737

See Notes to the Condensed Consolidated Financial Statements.

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

	Boeing shareholders						
(Dollars in millions, except per share data)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance at January 1, 2017	$5,061	$4,762	($36,097)	$41,754	($13,623)	$60	$1,917
Net earnings				3,328		(1)	3,327
Other comprehensive loss, net of tax of $(172)					389		389
Share-based compensation and related dividend equivalents		116		(17)			99
Treasury shares issued for stock options exercised, net		(63)	304				241
Treasury shares issued for other share-based plans, net		(171)	63				(108)
Common shares repurchased			(5,000)				(5,000)
Cash dividends declared ($2.84 per share)				(1,687)			(1,687)
Balance at June 30, 2017	$5,061	$4,644	($40,730)	$43,378	($13,234)	$59	($822)
Balance at January 1, 2018	$5,061	$6,804	($43,454)	$49,618	($16,373)	$57	$1,713
Net earnings				4,673		(10)	4,663
Other comprehensive income, net of tax of $(81)					234		234
Share-based compensation and related dividend equivalents		115		(17)			98
Treasury shares issued for stock options exercised, net		(32)	95				63
Treasury shares issued for other share-based plans, net		(211)	(18)				(229)
Common shares repurchased			(5,965)				(5,965)
Cash dividends declared ($3.42 per share)				(1,971)			(1,971)
Changes in noncontrolling interests						20	20
Balance at June 30, 2018	$5,061	$6,676	($49,342)	$52,303	($16,139)	$67	($1,374)

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues:				
Commercial Airplanes	$28,133	$27,233	$14,481	$14,280
Defense, Space & Security	11,355	10,254	5,593	5,142
Global Services	8,033	7,205	4,090	3,552
Boeing Capital	137	164	72	72
Unallocated items, eliminations and other	(18)	156	22	5
Total revenues	$47,640	$45,012	$24,258	$23,051
Earnings from operations:				
Commercial Airplanes	$3,152	$2,152	$1,644	$1,282
Defense, Space & Security	1,170	1,163	521	614
Global Services	1,247	1,192	603	569
Boeing Capital	44	64	24	25
Segment operating profit	5,613	4,571	2,792	2,490
Unallocated items, eliminations and other	(710)	(538)	(399)	(317)
FAS/CAS service cost adjustment	682	703	317	357
Earnings from operations	5,585	4,736	2,710	2,530
Other income/(loss), net	51	51	(15)	25
Interest and debt expense	(211)	(180)	(109)	(93)
Earnings before income taxes	5,425	4,607	2,586	2,462
Income tax expense	(752)	(1,279)	(390)	(713)
Net earnings	$4,673	$3,328	$2,196	$1,749

This information is an integral part of the Notes to the Condensed Consolidated Financial Statements. See Note 19 for further segment results.

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

Note 1 – Basis of Presentation

The condensed consolidated interim financial statements included in this report have been prepared by management of The Boeing Company (herein referred to as "Boeing", the "Company", "we", "us", or "our"). In the opinion of management, al adjustments (consisting of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The results of operations for the period ended June 30, 2018 are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto, included in our 2017 Annual Report on Form 10-K. Prior period amounts have been adjusted to conform with the current year presentation.

Standards Issued and Not Yet Implemented

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We plan to adopt the new lease standard in 2019 and do not expect it to have a material effect on our financial position, results of operations or cash flows.

Standards Issued and Implemented

In the first quarter of 2018, we adopted the following ASUs: ASU 2014-09, Revenue from Contracts with Customers (Topic 606); ASU 2017-07,Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost; ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash; ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

The impact of the adoption of these standards to our unaudited Consolidated Financial Statements is presented in Note 2 and the additional disclosures are shown in Notes 6 and 19.

ASU 2014-09 In the first quarter of 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method. Topic 606 requires 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.

Most of our defense contracts at our Defense, Space & Security (BDS) and Global Services (BGS) segments and certain military derivative aircraft contracts at our Commercial Airplanes (BCA) segment now recognize revenue under the new standard as costs are incurred. Under previous U.S. generally accepted accounting principles (GAAP), revenue was generally recognized when deliveries were made, performance milestones were attained, or as costs were incurred. The new standard accelerates the timing of when the revenue is recognized, however, it does not change the total amount of revenue recognized on these contracts. The new standard does not affect revenue recognition or the use of program accounting for commercial airplane contracts in our BCA business. We continue to recognize revenue for these contracts at the point in time when the customer accepts delivery of the airplane. The adoption resulted in a cumulative adjustment to increase Retained earnings by $901 at January 1, 2016 and an increase of $116 to Net earnings for the first six months of 2017.

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ASU 2017-07 In the first quarter of 2018, we adopted ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires non-service cost components of net periodic benefit cost to be presented in non-operating earnings using a retrospective transition method. We applied a practical expedient as the estimation basis for the reclassification of prior period non-service cost components of net periodic benefit cost from Earnings from operations to Other income/(loss), net. Through the end of 2017, a portion of net periodic pension and other postretirement income or expense was not recognized in net earnings in the year incurred because it was allocated to production as product costs, and reflected in inventory at the end of the reporting periods. Effective January 1, 2018, in accordance with our adoption of ASU 2017-07, only service costs may be allocated to production costs and capitalized in inventory on a prospective basis. The impact of adoption was not material.

ASU 2016-18 In the first quarter of 2018, we adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The standard requires companies to include restricted amounts with Cash & cash equivalents when reconciling the beginning and end of period total amounts shown on the Statements of Cash Flows. The impact of adoption was not material.

ASU 2018-02 In the first quarter of 2018, we early adopted ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard allows companies to reclassify from Accumulated other comprehensive income/loss to Retained earnings the difference between the historical corporate income tax rate of 35% and the 21% rate enacted in the Tax Cuts and Jobs Act (TCJA) in December 2017. This resulted in an increase of $2,997 to Retained earnings and an increase of $2,997 to Accumulated other comprehensive loss.

Significant Accounting Policies - Update

Our significant accounting policies are described in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2017. Our significant accounting policies described below reflect the impact of the adoption of Topic 606 in the first quarter of 2018.

Revenue and Related Cost Recognition

Commercial aircraft contracts The majority of our BCA segment revenue is derived from commercial aircraft contracts. For each contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each commercial aircraft performance obligation based on relative standalone selling prices adjusted by an escalation formula as specified in the customer agreement. Revenue is recognized for each commercial aircraft performance obligation at the point in time when the aircraft is completed and accepted by the customer. We use program accounting to determine the amount reported as cost of sales.

Where an aircraft is still in our possession, and title and risk of loss has passed to the customer (known as a bill-and-hold arrangement), revenue will be recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met.

Payments for commercial aircraft sales are received in accordance with the customer agreement, which generally includes a deposit upon order and additional payments in accordance with a payment schedule, with the balance being due immediately prior to or at aircraft delivery. Advances and progress billings (contract liabilities) are normal and customary for commercial aircraft contracts and not considered a significant financing component as they are intended to protect us from the other party failing to adequately complete some or all of its obligations under the contract.

Long-term contracts Substantially all contracts at BDS, certain military derivative aircraft contracts at BCA and certain contracts at BGS are long-term contracts with the U.S. government and other customers that generally extend over several years. Products sales under long-term contracts primarily include fighter jets, rotorcraft, cybersecurity products, surveillance suites, advanced weapons, missile defense, military derivative aircraft, satellite systems, and modification of commercial passenger aircraft to cargo freighters. Services

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sales under long-term contracts primarily include support and maintenance agreements associated with our commercial and defense products and space travel on Commercial Crew.

For each long-term contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each distinct performance obligation to deliver a good or service, or a collection of goods and/or services, based on the relative standalone selling prices. A long-term contract will typically represent a single distinct performance obligation due to the highly interdependent and interrelated nature of the underlying goods and/or services and the significant service of integration that we provide. While the scope and price on certain long-term contracts may be modified over their life, the transaction price is based on current rights and obligations under the contract and does not include potential modifications until they are agreed upon with the customer. When applicable, a cumulative adjustment or separate recognition for the additional scope and price may result. Long-term contracts can be negotiated with a fixed price or a price in which we are reimbursed for costs incurred plus an agreed upon profit. The Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing the price for contracts with the U.S. government. Certain long-term contracts include in the transaction price variable consideration, such as incentive and award fees, if specified targets are achieved. The amount included in the transaction price represents the expected value, based on a weighted probability, or the most likely amount. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

Long-term contract revenue is recognized over the contract term (over time) as the work progresses, either as products are produced or as services are rendered. We generally recognize revenue over time as we perform on long-term contracts because of continuous transfer of control to the customer. For U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Similarly, for non-U.S. government contracts, the customer typically controls the work in process as evidenced either by contractual termination clauses or by our rights to payment of the transaction price associated with work performed to date on products or services that do not have an alternative use to the Company.

The accounting for long-term contracts involves a judgmental process of estimating total sales, costs and profit for each performance obligation. Cost of sales is recognized as incurred. The amount reported as revenues is determined by adding a proportionate amount of the estimated profit to the amount reported as cost of sales. Recognizing revenue as costs are incurred provides an objective measure of progress on the long-term contract and thereby best depicts the extent of transfer of control to the customer.

Changes in estimated revenues, cost of sales and the related effect on operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a long-term contract’s percentage-of-completion. When the current estimates of total sales and costs for a long-term contract indicate a loss, a provision for the entire reach-forward loss on the long-term contract is recognized.

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

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Increase/(decrease) to Revenue	$45	$470	($72)	$263
Increase/(decrease) to Earnings from Operations	($159)	$422	($237)	$314
Increase/(decrease) to Diluted EPS	($0.23)	$0.50	($0.34)	$0.37

Due to the significance of judgment in the estimation process changes in underlying assumptions/estimates, supplier performance, or circumstances may adversely or positively affect financial performance in future periods.

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Payments under long-term contracts may be received before or after revenue is recognized. The U.S. government customer typically withholds payment of a small portion of the contract price until contract completion. Therefore, long-term contracts typically generate Unbilled receivables (contract assets) but may generate Advances and progress billings (contract liabilities). Long-term contract Unbilled receivables and Advances and progress billings are not considered a significant financing component because they are intended to protect either the customer or the Company in the event that some or all of the obligations under the contract are not completed.

Commercial spare parts contracts Certain contracts at our BGS segment include sales of commercial spare parts. For each contract, we determine the transaction price based on the consideration expected to be received. We allocate the transaction price to each distinct performance obligation, including each commercial spare part, based on relative standalone selling prices. Revenue is recognized for each commercial spare part performance obligation at the point in time of delivery to the customer. We may provide our customers with a right to return a commercial spare part where a customer may receive a full or partial refund, a credit applied to amounts owed, a different product in exchange, or any combination of these items. We consider the potential for customer returns in the estimated transaction price. The amount reported as cost of sales is recorded at average cost. Payments for commercial spare parts sales are typically received shortly after delivery.

Other service revenue contracts Certain contracts at our BGS segment are for sales of services to commercial customers including maintenance, training, data analytics and information-based services. We recognize revenue for these service performance obligations over time as the services are rendered. The method of measuring progress (such as straight-line or billable amount) varies depending upon which method best depicts the transfer of control to the customer based on the type of service performed. Cost of sales is recorded as incurred.

Concession sharing arrangements We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction of the transaction price and the revenue that is recognized for the related performance obligations. 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.

Unbilled Receivables and Advances and Progress Billings

Unbilled receivables (contract assets) arise when the Company recognizes revenue for amounts which cannot yet be billed under terms of the contract with the customer. Advances and progress billings (contract liabilities) arise when the Company receives payments from customers in advance of recognizing revenue. The amount of Unbilled receivables or Advances and progress billings is determined for each contract.

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Note 2 - Impact of Adoption of New Standards

In the first quarter of 2018, we adopted the following ASUs: ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost; ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash; and ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

The impact to our unaudited Consolidated Financial Statements as a result of adopting these standards was as follows:

Condensed Consolidated Statement of Operations (Unaudited)

	Six months ended June 30, 2017			Three months ended June 30, 2017		
(Dollars in millions)	Reported	Impact of New Standards	Restated	Reported	Impact of New Standards	Restated
Sales of products	$38,659	$1,226	$39,885	$20,147	$371	$20,518
Sales of services	5,056	71	5,127	2,592	(59)	2,533
Total revenues	43,715	1,297	45,012	22,739	312	23,051
Cost of products	(31,806)	(1,080)	(32,886)	(16,443)	(381)	(16,824)
Cost of services	(3,820)	(43)	(3,863)	(1,932)	67	(1,865)
Boeing Capital interest expense	(26)		(26)	(13)		(13)
Total costs and expenses	(35,652)	(1,123)	(36,775)	(18,388)	(314)	(18,702)
	8,063	174	8,237	4,351	(2)	4,349
Income from operating investments, net	120		120	39		39
General and administrative expense	(1,973)	1	(1,972)	(1,040)	(3)	(1,043)
Research and development expense, net	(1,651)	2	(1,649)	(813)		(813)
Loss on dispositions, net				(2)		(2)
Earnings from operations	4,559	177	4,736	2,535	(5)	2,530
Other income, net	49	2	51	27	(2)	25
Interest and debt expense	(180)		(180)	(93)		(93)
Earnings before income taxes	4,428	179	4,607	2,469	(7)	2,462
Income tax expense	(1,216)	(63)	(1,279)	(708)	(5)	(713)
Net earnings	$3,212	$116	$3,328	$1,761	($12)	$1,749
Basic earnings per share	$5.28	$0.19	$5.47	$2.93	($0.02)	$2.91
Diluted earnings per share	$5.22	$0.19	$5.41	$2.89	($0.02)	$2.87

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Condensed Consolidated Statement of Financial Position

(Dollars in millions)	December 31, 2017		
Assets	Reported	Impact of New Standards	Restated
Cash and cash equivalents	$8,813		$8,813
Short-term and other investments	1,179		1,179
Accounts receivable, net	10,516	($7,622)	2,894
Unbilled receivables, net		8,194	8,194
Current portion of customer financing, net	309		309
Inventories	44,344	17,044	61,388
Other current assets		2,417	2,417
Total current assets	65,161	20,033	85,194
Customer financing, net	2,740	16	2,756
Property, plant and equipment, net	12,672		12,672
Goodwill	5,559		5,559
Acquired intangible assets, net	2,573		2,573
Deferred income taxes	341	(20)	321
Investments	1,260		1,260
Other assets, net of accumulated amortization	2,027		2,027
Total assets	$92,333	$20,029	$112,362
Liabilities and equity			
Accounts payable	$12,202		$12,202
Accrued liabilities	15,292	($2,223)	13,069
Advances and billings in excess of related costs	27,440	(27,440)	
Advances and progress billings		48,042	48,042
Short-term debt and current portion of long-term debt	1,335		1,335
Total current liabilities	56,269	18,379	74,648
Deferred income taxes	1,839	349	2,188
Accrued retiree health care	5,545		5,545
Accrued pension plan liability, net	16,471		16,471
Other long-term liabilities	2,015		2,015
Long-term debt	9,782		9,782
Shareholders' equity:			
Common stock	5,061		5,061
Additional paid-in capital	6,804		6,804
Treasury stock, at cost	(43,454)		(43,454)
Retained earnings	45,320	4,298	49,618
Accumulated other comprehensive loss	(13,376)	(2,997)	(16,373)
Total shareholders' equity	355	1,301	1,656
Noncontrolling interests	57		57
Total equity	412	1,301	1,713
Total liabilities and equity	$92,333	$20,029	$112,362

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Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in millions)	Six months ended June 30, 2017		
	Reported	Impact of New Standards	Restated
Cash flows - operating activities:			
Net earnings	$3,212	$116	$3,328
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Non-cash items -			
Share-based plans expense	98		98
Depreciation and amortization	965	(9)	956
Investment/asset impairment charges, net	46		46
Customer financing valuation expense	5		5
Other charges and credits, net	129	6	135
Changes in assets and liabilities -			
Accounts receivable	(912)	749	(163)
Unbilled receivables		(950)	(950)
Advances and progress billings		3,916	3,916
Inventories	877	(1,913)	(1,036)
Other current assets		(148)	(148)
Accounts payable	419		419
Accrued liabilities	(680)	110	(570)
Advances and billings in excess of related costs	1,934	(1,934)	
Income taxes receivable, payable and deferred	712	62	774
Other long-term liabilities	(18)		(18)
Pension and other postretirement plans	13		13
Customer financing, net	343	(1)	342
Other	(99)	(1)	(100)
Net cash provided by operating activities	7,044	3	7,047
Cash flows - investing activities:			
Property, plant and equipment additions	(905)		(905)
Property, plant and equipment reductions	25		25
Contributions to investments	(1,820)		(1,820)
Proceeds from investments	1,441		1,441
Purchase of distribution rights	(131)		(131)
Other	4	3	7
Net cash used by investing activities	(1,386)	3	(1,383)
Cash flows - financing activities:			
New borrowings	874		874
Debt repayments	(56)		(56)
Stock options exercised	240		240
Employee taxes on certain share-based payment arrangements	(112)		(112)
Common shares repurchased	(5,000)		(5,000)
Dividends paid	(1,720)		(1,720)
Net cash used by financing activities	(5,774)		(5,774)
Effect of exchange rate changes on cash & cash equivalents, including restricted	52		52
Net (decrease)/increase in cash & cash equivalents, including restricted	(64)	6	(58)
Cash & cash equivalents, including restricted*, at beginning of year	8,801	68	8,869

Cash & cash equivalents, including restricted*, at end of period	$8,737	$74	8,811
Less restricted cash & cash equivalents, included in Investments			74
Cash and cash equivalents at end of period			$8,737

* Reported balance excludes restricted amounts

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Condensed Consolidated Statements of Equity (Unaudited)

(Dollars in millions)	Boeing shareholders					Non-controlling Interests	Total
	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss		
Balance at January 1, 2017, as reported	$5,061	$4,762	($36,097)	$40,714	($13,623)	$60	$877
Cumulative Impact of Topic 606 at 1/1/2016				901			901
Impact of Topic 606 on 2016 earnings				139			139
Balance at January 1, 2017, as restated	$5,061	$4,762	($36,097)	$41,754	($13,623)	$60	$1,917

(Dollars in millions)	Boeing shareholders					Non-controlling Interests	Total
	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss		
Balance at December 31, 2017, as reported	$5,061	$6,804	($43,454)	$45,320	($13,376)	$57	$412
Cumulative Impact of Topic 606 at 1/1/2016				901			901
Impact of Topic 606 on 2016 earnings				139			139
Impact of Topic 606 on 2017 earnings				261			261
Total impact of ASC 606 through December 31, 2017				1,301			1,301
Impact of ASU 2018-02				2,997	(2,997)		
Balance at December 31, 2017, as restated	$5,061	$6,804	($43,454)	$49,618	($16,373)	$57	$1,713

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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.

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

(In millions - except per share amounts)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Net earnings	$4,673	$3,328	$2,196	$1,749
Less: earnings available to participating securities	3	2		
Net earnings available to common shareholders	$4,670	$3,326	$2,196	$1,749
Basic				
Basic weighted average shares outstanding	586.6	608.4	582.6	602.5
Less: participating securities	0.6	0.8	0.7	0.7
Basic weighted average common shares outstanding	586.0	607.6	581.9	601.8
Diluted				
Basic weighted average shares outstanding	586.6	608.4	582.6	602.5
Dilutive potential common shares[(1)]	6.3	6.9	6.1	7.1
Diluted weighted average shares outstanding	592.9	615.3	588.7	609.6
Less: participating securities	0.6	0.8	0.7	0.7
Diluted weighted average common shares outstanding	592.3	614.5	588.0	608.9
Net earnings per share:				
Basic	$7.97	$5.47	$3.77	$2.91
Diluted	7.88	5.41	3.73	2.87

(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)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Performance awards	2.8	5.2	2.7	4.7
Performance-based restricted stock units	0.3	0.9	0.1	0.5

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Note 4 – Income Taxes

Our effective income tax rates were 13.9% and 15.1% for the six and three months ended June 30, 2018 and 27.8% and 29.0% for the same periods in the prior year. The 2018 tax rates reflect the enactment of the TCJA, which permanently reduced the U.S. corporate statutory rate from 35% to 21% effective January 1, 2018. The 2018 tax rates reflect net favorable impacts of the TCJA provisions which effectively apply a lower U.S. tax rate to intangible income derived from serving non-U.S. markets, research and development credits, and discrete tax benefits, primarily related to share-based payments recorded in the first and second quarters of 2018. The 2017 tax rates reflect the 35% statutory tax rate reduced by tax benefits for research and development credits, U.S. manufacturing activity and share-based payments.

In 2017, in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118, we recorded provisional amounts related to the TCJA, including the remeasurement of our U.S. net deferred tax liabilities and ancillary state tax effects, as well as the repatriation tax. We continue to assess available tax methods and elections, refine our computation of the repatriation tax and evaluate regulatory guidance, which may result in changes to our tax estimates.

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

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months unrecognized tax benefits related to federal and state matters under audit may decrease by up to $540 and $440, respectively, based on current estimates.

Note 5 – Inventories

Inventories consisted of the following:

	June 30 2018	December 31 2017
Long-term contracts in progress	$2,027	$1,854
Commercial aircraft programs	52,830	52,861
Commercial spare parts, used aircraft, general stock materials and other	6,393	6,673
Total	$61,250	$61,388

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. The inventory balance was $267 and $284 at June 30, 2018 and December 31, 2017. See indemnifications to ULA in Note 11.

Included in inventories are capitalized precontract costs of $878 at June 30, 2018 primarily related to the KC-46A Tanker and $933 at December 31, 2017 primarily related to the KC-46A Tanker, C-17 and F/A-18. See Note 10.

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Commercial Aircraft Programs

At June 30, 2018 and December 31, 2017, commercial aircraft programs inventory included the following amounts related to the 787 program: $29,234 and $30,695 of work in process (including deferred production costs of $24,241 and $25,358), $2,543 and $3,189 of supplier advances, and $2,899 and $3,173 of unamortized tooling and other non-recurring costs. At June 30, 2018, $20,903 of 787 deferred production costs, unamortized tooling and other non-recurring costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $6,237 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At June 30, 2018 and December 31, 2017, commercial aircraft programs inventory included $132 and $151 of unamortized tooling costs related to the 747 program. At June 30, 2018, $127 of unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders or commitments. At June 30, 2018, the program accounting quantity includes one already completed aircraft which is being remarketed.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $2,760 and $2,976 at June 30, 2018 and December 31, 2017.

Note 6 – Contracts with Customers

Unbilled receivables increased from $8,194 at December 31, 2017 to $9,868 at June 30, 2018, primarily driven by revenue recognized at BDS in excess of billings.

Advances and progress billings increased from $48,042 at December 31, 2017 to $50,970 at June 30, 2018, primarily driven by advances on orders received in excess of revenue recognized at BCA.

In the six and three months ended June 30, 2018, we recognized revenue of $12,757 and $6,304 related to our Advances and progress billings at January 1, 2017. In the six and three months ended June 30, 2017, we recognized revenue of $11,687 and $6,276 related to our Advances and progress billings at January 1, 2016.

Note 7 – Customer Financing

Customer financing primarily relates to the Boeing Capital (BCC) segment. Prior period amounts have been adjusted to conform with the current year presentation as a result of the adoption of Topic 606. Customer financing consisted of the following:

	June 30 2018	December 31 2017
Financing receivables:		
Investment in sales-type/finance leases	$1,193	$1,364
Notes	850	1,022
Total financing receivables	2,043	2,386
Operating lease equipment, at cost, less accumulated depreciation of $207 and $305	1,077	691
Gross customer financing	3,120	3,077
Less allowance for losses on receivables	(9)	(12)
Total	$3,111	$3,065

We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms. At June 30, 2018 and December 31, 2017, we individually evaluated for impairment customer financing receivables of $414 and $422, of which $403 and $411 were determined to be impaired. We recorded no allowance for losses on these impaired receivables as the collateral values exceeded the carrying values of the receivables.

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

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

Rating categories	June 30 2018	December 31 2017
BBB	$1,023	$1,170
BB	450	627
B	167	177
CCC	403	412
Total carrying value of financing receivables	$2,043	$2,386

At June 30, 2018, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 23.2%, 7.2% and 0.8%, respectively, to the exposure associated with those receivables.

Customer Financing Exposure

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

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

	June 30 2018	December 31 2017
717 Aircraft ($238 and $269 accounted for as operating leases)	$998	$1,081
747-8 Aircraft ($135 and $138 accounted for as operating leases)	480	483
737 Aircraft ($271 and $127 accounted for as operating leases)	302	161
757 Aircraft ($26 and $27 accounted for as operating leases)	209	217
MD-80 Aircraft (accounted for as sales-type finance leases)	204	231
747-400 Aircraft ($77 and $88 accounted for as operating leases)	154	170
777 Aircraft ($30 and $0 accounted for as operating leases)	41	14
767 Aircraft ($0 and $25 accounted for as operating leases)	15	98

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Note 8 – Investments

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

	June 30 2018	December 31 2017
Equity method investments [1]	$1,159	$1,214
Time deposits	1,084	613
Available for sale debt instruments	491	490
Restricted cash & cash equivalents[2]	74	74
Equity and other investments	44	48
Total	$2,852	$2,439

(1) Dividends received were $143 and $55 for the six and three months ended June 30, 2018 and $148 and $52 during the same periods in the prior year.

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

Note 9 – Other Assets

Sea Launch

At June 30, 2018 and December 31, 2017, Other assets included $295 and $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. At June 30, 2018, the net amounts owed to Boeing by each of the partners were as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia (RSC Energia) – $162, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

In 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners. In 2016, the United States District Court for the Central District of California issued a judgment in favor of Boeing. Later that year, we reached an agreement which we believe will enable us to recover the outstanding receivable balance from RSC Energia over the next several years. We continue to pursue collection efforts against the former Ukrainian partners in connection with the court judgment. We continue to believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement from RSC Energia and the Ukrainian Sea Launch partners, we could incur additional charges.

Spirit AeroSystems

At December 31, 2017, Other assets included $137 of receivables related to indemnifications from Spirit AeroSystems, Inc. (Spirit) for costs incurred related to pension and retiree medical obligations of former Boeing employees who were subsequently employed by Spirit. On July 12, 2018, the Delaware Supreme Court denied Boeing's claim for indemnification. As a result, in the second quarter we wrote off the receivables attributable to the Spirit indemnifications.

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Note 10 – Commitments and Contingencies

Environmental

The following table summarizes environmental remediation activity during the six months ended June 30, 2018 and 2017.

	2018	2017
Beginning balance – January 1	$524	$562
Reductions for payments made	(8)	(23)
Changes in estimates	18	(19)
Ending balance – June 30	$534	$520

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 June 30, 2018 and December 31, 2017, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $815 and $868.

Product Warranties

The following table summarizes product warranty activity recorded during the six months ended June 30, 2018 and 2017.

	2018	2017
Beginning balance – January 1	$1,211	$1,414
Additions for current year deliveries	130	126
Reductions for payments made	(72)	(125)
Changes in estimates	(140)	(109)
Ending balance – June 30	$1,129	$1,306

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 June 30, 2018 have expiration dates from 2018 through 2026. At June 30, 2018, and December 31, 2017 total contractual trade-in commitments were $1,445 and $1,462. As of June 30, 2018 and December 31, 2017, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $313 and $155 and the fair value of the related trade-in aircraft was $296 and $155.

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Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $19,060 and $10,221 as of June 30, 2018 and December 31, 2017. The estimated earliest potential funding dates for these commitments as of June 30, 2018 are as follows:

	Total
July through December 2018	$880
2019	2,357
2020	3,857
2021	2,675
2022	1,083
Thereafter	8,208
	$19,060

As of June 30, 2018, $17,757 of these financing commitments related to customers we believe have less than investment-grade credit. We have concluded that no reserve for future potential losses is required for these financing commitments based upon the terms, such as collateralization and interest rates, under which funding would be provided.

Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately $3,553 and $3,708 as of June 30, 2018 and December 31, 2017.

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 June 30, 2018, ULA’s total remaining obligation to Boeing under the inventory supply agreement was $120. See Note 5.

United States Government Defense Environment Overview

The Bipartisan Budget Act of 2018, passed in February 2018, raised the 2011 Budget Control Act spending caps for fiscal years 2018 and 2019 (FY18 and FY19). In addition, the FY18 Omnibus spending bill signed into law on March 23, 2018 provides funding for the remainder of the fiscal year. However, the 2011 Budget Control Act continues to mandate limits on U.S. government discretionary spending and remains in effect for fiscal years 2020 and 2021. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless Congress acts to repeal or suspend this law.

There continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA). Although FY19 spending topline levels have been agreed to, the lower budget caps and sequestration will take effect again in fiscal years 2020 and 2021 unless Congress acts to raise the caps or to repeal or suspend the law. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company’s operations, financial position and/or cash flows.

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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, we have a reach-forward loss on the KC-46A Tanker program. Moreover, this and our other fixed-price development programs remain subject to additional reach-forward losses if we experience further technical or quality issues, schedule delays, or increased costs.

KC-46A Tanker

In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. In 2016, the USAF authorized two low rate initial production (LRIP) lots for 7 and 12 aircraft valued at $2.8 billion. In January 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. At June 30, 2018, we had approximately $565 of capitalized precontract costs and $1,567 of potential termination liabilities to suppliers.

Recoverable Costs on Government Contracts

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

Note 11 – 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	
	June 30 2018	December 31 2017	June 30 2018	December 31 2017	June 30 2018	December 31 2017
Contingent repurchase commitments	$1,699	$1,605	$1,699	$1,605		$9
Indemnifications to ULA:						
Contributed Delta program launch inventory	67	72				
Contract pricing	261	261			$7	7
Other Delta contracts	191	191				
Credit guarantees	112	109	55	55	16	16

Contingent Repurchase Commitments The repurchase price specified in contingent repurchase commitments is generally lower than the expected fair value at the specified repurchase date. Estimated

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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 $1,293 of the $1,360 of inventory that was contributed by us and has yet to consume $67. Under the inventory supply agreement, we have recorded revenues and cost of sales of $1,545 through June 30, 2018. ULA has made payments of $1,740 to us under the inventory supply agreement and we have made $48 of net indemnification payments to ULA.

We agreed to indemnify ULA against potential losses that ULA may incur in the event ULA is unable to obtain certain additional contract pricing from the USAF for four satellite missions. In 2009, ULA, through its subsidiary United Launch Services, filed a claim and notice of appeal before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of two of these missions, followed in 2011 by a subsequent claim and appeal with respect to a third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. During the second quarter of 2016, the ASBCA ruled that ULA is entitled to additional contract pricing for each of the three missions and remanded to the parties to negotiate appropriate pricing. During the fourth quarter of 2016, the USAF appealed the ASBCA's ruling. In April 2017, the USAF withdrew its appeal. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for an indemnification payment up to $261 and may record up to $280 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. In 2012, Boeing and ULA, through its subsidiary United Launch Services, filed a suit in the Court of Federal Claims seeking recovery of the deferred support and production costs from the U.S. government, which subsequently asserted a counterclaim for credits that it alleges were offset by deferred support cost invoices. We believe that the U.S. government’s counterclaim is without merit. The discovery phase of the litigation completed in 2017, and during the fourth quarter, Boeing filed a motion for summary judgment for full recovery of its costs. Oral arguments related to the summary judgment filing took place on June 21, 2018. If, contrary to our belief, it is determined that some or all of the deferred support or production costs are not recoverable, we could be required to record pre-tax losses and make indemnification payments to ULA for up to $317 of the costs questioned by the DCMA.

Other Indemnifications In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our BCA facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. We are unable to assess the potential number of future claims that may be asserted under these indemnifications, nor the amounts thereof (if any). As a result, we cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded. To the extent that claims have been made under these indemnities and/or are probable and reasonably estimable, liabilities associated with these indemnities are included in the environmental liability disclosure in Note 10.

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

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Acquisition agreement

On April 30, 2018, we entered into a definitive agreement to acquire KLX Inc. (KLX), a provider of aviation parts and services, for approximately $4.25 billion. The acquisition of KLX is subject to the separation and divestment of its Energy Services Group, as well as customary closing conditions such as KLX shareholder approval and applicable regulatory clearances. We currently expect the transaction to close in 2018. If the acquisition is not completed due to failure to obtain antitrust approvals, we would be required to pay a termination fee of $175. Upon closing, KLX will be part of Boeing's Global Services business.

Strategic Partnership with Embraer

On July 5, 2018, we and Embraer S.A. (Embraer) announced the signing of a Memorandum of Understanding to establish a strategic partnership between the two companies. The non-binding agreement proposes the formation of a joint venture comprising the commercial aircraft and services business of Embraer, which joint venture would be owned 80 percent by us. The transaction values 100 percent of Embraer's commercial aircraft operations at $4.75 billion and contemplates a value of $3.8 billion for our 80 percent ownership stake in the joint venture. We expect to work with Embraer to finalize the financial and operational details of the strategic partnership and negotiate definitive transaction agreements in the coming months. Once definitive transaction agreements have been executed, the transaction would then be subject to shareholder and regulatory approvals, including approval from the Government of Brazil, as well as other customary closing conditions. Assuming approvals are received in a timely manner, we expect that the transaction will close by the end of 2019.

Note 12 – Debt

On February 23, 2018, we issued $1,400 of fixed rate senior notes consisting of $350 due March 1, 2023 that bear an annual interest rate of 2.8%, $350 due March 1, 2028 that bear an annual interest rate of 3.25%, $350 due March 1, 2038 that bear an annual interest rate of 3.55%, and $350 due March 1, 2048 that bear an annual interest rate of 3.625%. The notes are unsecured senior obligations and rank equally in right of payment with our existing and future unsecured and unsubordinated indebtedness. The net proceeds of the issuance totaled $1,338, after deducting underwriting discounts, commissions and offering expenses.

Note 13 – Postretirement Plans

The components of net periodic benefit cost were as follows:

	Six months ended June 30		Three months ended June 30	
Pension Plans	2018	2017	2018	2017
Service cost	$215	$201	$107	$100
Interest cost	1,390	1,496	695	748
Expected return on plan assets	(2,005)	(1,922)	(1,003)	(961)
Amortization of prior service credits	(28)	(20)	(14)	(10)
Recognized net actuarial loss	565	402	283	201
Settlement/curtailment/other losses	43	1	43	
Net periodic benefit cost	$180	$158	$111	$78
Net periodic benefit cost included in Earnings from operations	$158	$253	$76	$122
Net periodic benefit cost included in Other income/(loss), net	(48)	(62)	(6)	(28)
Net periodic benefit cost included in Earnings before income taxes	$110	$191	$70	$94

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	Six months ended June 30		Three months ended June 30	
Other Postretirement Plans	2018	2017	2018	2017
Service cost	$47	$53	$23	$27
Interest cost	97	114	48	57
Expected return on plan assets	(4)	(4)	(2)	(2)
Amortization of prior service credits	(63)	(68)	(31)	(34)
Recognized net actuarial (gain)/loss	(5)	6	(2)	3
Net periodic benefit cost	$72	$101	$36	$51
Net periodic benefit cost included in Earnings from operations	42	53	20	25
Net periodic benefit cost included in Other income/(loss), net	48	60	24	30
Net periodic benefit cost included in Earnings before income taxes	$90	$113	$44	$55

Note 14 – Share-Based Compensation and Other Compensation Arrangements

Restricted Stock Units

On February 26, 2018, we granted to our executives 260,730 restricted stock units (RSUs) as part of our long-term incentive program with a grant date fair value of $361.13 per unit. The RSUs granted under this program will vest and settle in common stock (on a one-for-one basis) on the third anniversary of the grant date.

Performance-Based Restricted Stock Units

On February 26, 2018, we granted to our executives 241,284 performance-based restricted stock units (PBRSUs) as part of our long-term incentive program with a grant date fair value of $390.27 per unit. Compensation expense for the award is recognized over the three-year performance period based upon the grant date fair value estimated using a Monte-Carlo simulation model. The model used the following assumptions: expected volatility of 22.11% based upon historical stock volatility, a risk-free interest rate of 2.36%, and no expected dividend yield because the units earn dividend equivalents.

Performance Awards

On February 26, 2018, we granted to our executives performance awards as part of our long-term incentive program with a payout based on the achievement of financial goals for the three-year period ending December 31, 2020. At June 30, 2018, the minimum payout amount is $0 and the maximum amount we could be required to pay out is $367.

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Note 15 – Shareholders' Equity

Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive loss (AOCI) by component for the six and three months ended June 30, 2018 and 2017 were as follows:

	Currency Translation Adjustments	Unrealized Gains and Losses on Certain Investments	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans & Other Postretirement Benefits	Total [1]
Balance at January 1, 2017	($143)	($2)	($127)	($13,351)	($13,623)
Other comprehensive (loss)/income before reclassifications	77		71	1	149
Amounts reclassified from AOCI			34	206 [2]	240
Net current period Other comprehensive (loss)/income	77		105	207	389
Balance at June 30, 2017	($66)	($2)	($22)	($13,144)	($13,234)
Balance at January 1, 2018	($15)	($2)	$54	($16,410)	($16,373)
Other comprehensive (loss)/income before reclassifications	(57)	3	(93)	(2)	(149)
Amounts reclassified from AOCI			10	373 [2]	383
Net current period Other comprehensive income	(57)	3	(83)	371	234
Balance at June 30, 2018	($72)	$1	($29)	($16,039)	($16,139)
Balance at March 31, 2017	($109)	($1)	($59)	($13,246)	($13,415)
Other comprehensive (loss)/income before reclassifications	43	(1)	19		61
Amounts reclassified from AOCI			18	102 [2]	120
Net current period Other comprehensive (loss)/income	43	(1)	37	102	181
Balance at June 30, 2017	($66)	($2)	($22)	($13,144)	($13,234)
Balance at March 31, 2018	$12	$—	$56	($16,230)	($16,162)
Other comprehensive (loss)/income before reclassifications	(84)	1	(91)	1	(173)
Amounts reclassified from AOCI			6	190 [2]	196
Net current period Other comprehensive (loss)/income	(84)	1	(85)	191	23
Balance at June 30, 2018	($72)	$1	($29)	($16,039)	($16,139)

[1] Net of tax.

[2] Primarily relates to amortization of actuarial losses for the six and three months ended June 30, 2017 totaling $263 and $131 (net of tax of $(145) and ($73)) and for the six and three months ended June 30, 2018 totaling $438 and $219 (net of tax of ($122) and $(62)). These are included in the net periodic pension cost.

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Note 16 – Derivative Financial Instruments

Cash Flow Hedges

Our cash flow hedges include foreign currency forward contracts and commodity purchase contracts. We use foreign currency forward contracts to manage currency risk associated with certain transactions, specifically forecasted sales and purchases made in foreign currencies. Our foreign currency contracts hedge forecasted transactions through 2024. We use commodity derivatives, such as fixed-price purchase commitments to hedge against potentially unfavorable price changes for items used in production. Our commodity contracts hedge forecasted transactions through 2021.

Fair Value Hedges

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

Derivative Instruments Not Receiving Hedge Accounting Treatment

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

Notional Amounts and Fair Values

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

	Notional amounts [1]		Other assets		Accrued liabilities	
	June 30 2018	December 31 2017	June 30 2018	December 31 2017	June 30 2018	December 31 2017
Derivatives designated as hedging instruments:						
Foreign exchange contracts	$3,174	$2,930	$59	$131	($89)	($63)
Interest rate contracts	125	125	1	3		
Commodity contracts	26	56	5	4	(5)	(6)
Derivatives not receiving hedge accounting treatment:						
Foreign exchange contracts	332	406	11	16	(5)	(5)
Commodity contracts	680	563				
Total derivatives	$4,337	$4,080	$76	$154	($99)	($74)
Netting arrangements			(40)	(61)	40	61
Net recorded balance			$36	$93	($59)	($13)

[1] Notional amounts represent the gross contract/notional amount of the derivatives outstanding.

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Gains/(losses) associated with our cash flow and undesignated hedging transactions and their effect on Other comprehensive income/(loss) and Net earnings were as follows:

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Effective portion recognized in Other comprehensive income, net of taxes:				
Foreign exchange contracts	($93)	$76	($91)	$20
Commodity contracts		(5)		(1)
Effective portion reclassified out of Accumulated other comprehensive loss into earnings, net of taxes:				
Foreign exchange contracts	(9)	(32)	(5)	(17)
Commodity contracts	(1)	(2)	(1)	(1)
Forward points recognized in Other income, net:				
Foreign exchange contracts	5	2	(1)	1
Undesignated derivatives recognized in Other income, net:				
Foreign exchange contracts	(1)	5	(4)	

Based on our portfolio of cash flow hedges, we expect to reclassify losses of $25 (pre-tax) out of Accumulated other comprehensive loss into earnings during the next 12 months. Ineffectiveness related to our hedges recognized in Other income was insignificant for the six months ended June 30, 2018 and 2017.

We have derivative instruments with credit-risk-related contingent features. For foreign exchange contracts with original maturities of at least five years, our derivative counterparties could require settlement if we default on our five-year credit facility. For certain commodity contracts, our counterparties could require collateral posted in an amount determined by our credit ratings. The fair value of foreign exchange and commodity contracts that have credit-risk-related contingent features that are in a net liability position at June 30, 2018 was $18. At June 30, 2018, there was no collateral posted related to our derivatives.

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Note 17 – Fair Value Measurements

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

	June 30, 2018			December 31, 2017		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Money market funds	$1,688	$1,688		$1,582	$1,582	
Available-for-sale debt investments:						
Commercial paper	121		$121	70		$70
Corporate notes	346		346	382		382
U.S. government agencies	31		31	47		47
Other equity investments	16	16		18	18	
Derivatives	36		36	93		93
Total assets	$2,238	$1,704	$534	$2,192	$1,600	$592
Liabilities						
Derivatives	($59)		($59)	($13)		($13)
Total liabilities	($59)		($59)	($13)		($13)

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

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

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

	2018		2017	
	Fair Value	Total Losses	Fair Value	Total Losses
Operating lease equipment	$43	($17)	$65	($16)
Investments		(30)	1	(27)
Property, plant and equipment			8	(2)
Acquired intangible assets			14	(1)
Total	$43	($47)	$88	($46)

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

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

For Level 3 assets that were measured at fair value on a nonrecurring basis during the six months ended June 30, 2018, the following table presents the fair value of those assets as of the measurement date, valuation techniques and related unobservable inputs of those assets.

	Fair Value	Valuation Technique(s)	Unobservable Input	Range Median or Average
Operating lease equipment	$43	Market approach	Aircraft value publications	$41 - $63[1] Median $46
			Aircraft condition adjustments	($3) - $0[2] Net ($3)

(1) The range represents the sum of the highest and lowest values for all aircraft subject to fair value measurement, according to the third party aircraft valuation publications that we use in our valuation process.

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

Fair Value Disclosures

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

	June 30, 2018				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$850	$834		$834	
Liabilities					
Debt, excluding capital lease obligations and commercial paper	($11,382)	($11,467)		($11,372)	($95)
	December 31, 2017				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$1,022	$1,046		$1,046	
Liabilities					
Debt, excluding capital lease obligations and commercial paper	($10,380)	($11,923)		($11,823)	($100)

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

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arrangements are uncertain. Items not included in the above disclosures include cash, restricted cash, time deposits and other deposits, commercial paper, money market funds, Accounts receivable, Unbilled receivables, Accounts payable and long-term payables. The carrying values of those items, as reflected in the Condensed Consolidated Statements of Financial Position, approximate their fair value at June 30, 2018 and December 31, 2017. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

Note 18 – Legal Proceedings

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

In addition, we are subject to various U.S. government inquiries and investigations from which civil, criminal or administrative proceedings could result or have resulted in the past. Such proceedings involve or could involve claims by the government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. We believe, based upon current information, that the outcome of any such legal proceeding, claim, or government dispute and investigation will not have a material effect on our financial position, results of operations, or cash flows.

Note 19 – Segment and Revenue Information

Our primary profitability measurements to review a segment's operating results are Earnings from operations and operating margins. We operate in four reportable segments: BCA, BDS, BGS, and BCC. All other activities fall within Unallocated items, eliminations and other. See page 6 for the Summary of Business Segment Data, which is an integral part of this note.

BCA develops, produces and markets commercial jet aircraft principally to the commercial airline industry worldwide. Revenue on commercial aircraft contracts is recognized at the point in time when an aircraft is completed and accepted by the customer. Revenue on certain military derivative aircraft contracts is recognized over time as costs are incurred.

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

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

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

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

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BCA revenues by customer location consist of the following:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
Europe	$5,307	$4,765	$2,108	$2,633
China	4,756	3,494	2,709	2,315
Asia, other than China	4,080	3,083	2,349	1,848
Middle East	2,333	4,580	1,872	2,182
Other	2,500	2,172	1,006	1,114
Total non-U.S. revenues	18,976	18,094	10,044	10,092
United States	8,349	8,248	4,010	3,827
Total revenues from contracts with customers	27,325	26,342	14,054	13,919
Intersegment revenues, eliminated on consolidation	808	891	427	361
Total segment revenues	$28,133	$27,233	$14,481	$14,280
Revenue recognized on fixed price contracts	100 %	100 %	100 %	100 %
Revenue recognized at a point-in-time	96 %	94 %	96 %	95 %

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
U.S. customers	$8,023	$8,007	$3,797	$4,033
Non U.S. customers[1]	3,332	2,247	1,796	1,109
Total segment revenue from contracts with customers	$11,355	$10,254	$5,593	$5,142
Revenue recognized over time	98 %	98 %	99 %	100 %
Revenue recognized on fixed price contracts	65 %	64 %	63 %	64 %
Revenue from the U.S. government[1]	86 %	89 %	85 %	91 %

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

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BGS revenues consist of the following:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
Commercial	$4,845	$3,732	$2,743	$1,884
Government	3,095	3,447	1,313	1,655
Total revenues from contracts with customers	7,940	7,179	4,056	3,539
Intersegment revenues eliminated on consolidation	93	26	34	13
Total segment revenues	$8,033	$7,205	$4,090	$3,552
Revenue recognized at a point in time	53 %	48 %	52 %	48 %
Revenue recognized on fixed price contracts	89 %	89 %	90 %	90 %
Revenue from the U.S. government[(1)]	31 %	41 %	26 %	39 %

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

Backlog

Our total backlog represents the estimated transaction prices on performance obligations to our customers for which work remains to be performed. Backlog is converted into revenue in future periods as work is performed, primarily based on the cost incurred or at delivery and acceptance of products, depending on the applicable accounting method. Our backlog at June 30, 2018 was $488,036. We expect approximately 27% to be converted to revenue through 2019 and approximately 70% through 2022, with the remainder thereafter.

Unallocated Items, Eliminations and other

Unallocated items, eliminations and other include common internal services that support Boeing's global business operations, intercompany guarantees provided to BCC and eliminations of certain sales between segments. We generally allocate costs to business segments based on the U.S. federal cost accounting standards. Components of Unallocated items, eliminations and other are shown in the following table.

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Share-based plans	($36)	($46)	($18)	($25)
Deferred compensation	(56)	(96)	(27)	(46)
Amortization of previously capitalized interest	(48)	(46)	(23)	(22)
Eliminations and other unallocated items	(570)	(350)	(331)	(224)
Unallocated items, eliminations and other	($710)	($538)	($399)	($317)
Pension FAS/CAS service cost adjustment	$520	$540	$237	$278
Postretirement FAS/CAS service cost adjustment	162	163	80	79
FAS/CAS service cost adjustment	$682	$703	$317	$357

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Pension and Other Postretirement Benefit Expense

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

Assets

Segment assets are summarized in the table below:

	June 30 2018	December 31 2017
Commercial Airplanes	$64,592	$64,647
Defense, Space & Security	18,475	18,476
Global Services	12,884	12,491
Boeing Capital	3,046	3,156
Unallocated items, eliminations and other	14,198	13,592
Total	$113,195	$112,362

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Boeing Company
Chicago, Illinois

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated statement of financial position of The Boeing Company and subsidiaries (the “Company”) as of June 30, 2018, the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and of cash flows and equity for the six-month periods ended June 30, 2018 and 2017, and the related notes and schedules (collectively referred to as the "condensed consolidated interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, cash flows, and equity for the year then ended prior to retrospective adjustment for changes in the Company’s method of accounting for (i) revenue from contracts with customers and (ii) reclassification of certain tax effects from Accumulated other comprehensive income (not presented herein); and in our report dated February 12, 2018, we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments presented in Note 2 - Impact of Adoption of New Standards that were applied to retrospectively adjust the December 31, 2017 consolidated statement of financial position. In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated statement of financial position in deriving the accompanying retrospectively adjusted condensed consolidated statement of financial position as of December 31, 2017.

Basis for Review Results

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

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

/s/ Deloitte & Touche LLP

Chicago, Illinois
July 25, 2018

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FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates expressions generally identify these forward-looking statements. Examples of forward-looking statements include statements relating to our future financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact.

Forward-looking statements are based on expectations and assumptions that we believe to be reasonable when made, but that may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict. Many factors could cause actual results to differ materially and adversely from these forward-looking statements. Among these factors are risks related to:

(1) general conditions in the economy and our industry, including those due to regulatory changes;

(2) our reliance on our commercial airline customers;

(3) the overall health of our aircraft production system, planned commercial aircraft production rate changes, our commercial development and derivative aircraft programs, and our aircraft being subject to stringent performance and reliability standards;

(4) changing budget and appropriation levels and acquisition priorities of the U.S. government;

(5) our dependence on U.S. government contracts;

(6) our reliance on fixed-price contracts;

(7) our reliance on cost-type contracts;

(8) uncertainties concerning contracts that include in-orbit incentive payments;

(9) our dependence on our subcontractors and suppliers as well as the availability of raw materials;

(10) changes in accounting estimates;

(11) changes in the competitive landscape in our markets;

(12) our non-U.S. operations, including sales to non-U.S. customers;

(13) threats to the security of our or our customers' information;

(14) potential adverse developments in new or pending litigation and/or government investigations;

(15) customer and aircraft concentration in our customer financing portfolio;

(16) changes in our ability to obtain debt on commercially reasonable terms and at competitive rates;

(17) realizing the anticipated benefits of mergers, acquisitions, joint ventures, strategic alliances or divestitures;

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(18) the adequacy of our insurance coverage to cover significant risk exposures;

(19) potential business disruptions, including those related to physical security threats, information technology or cyber attacks, epidemics, sanctions or natural disasters;

(20) work stoppages or other labor disruptions;

(21) substantial pension and other postretirement benefit obligations; and

(22) potential environmental liabilities.

Additional information concerning these and other factors can be found in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any forward-looking information speaks only as of the date on which it is made, and we assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

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

Consolidated Results of Operations and Financial Condition

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)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$47,640	$45,012	$24,258	$23,051
GAAP				
Earnings from operations	$5,585	$4,736	$2,710	$2,530
Operating margins	11.7 %	10.5 %	11.2 %	11.0 %
Effective income tax rate	13.9 %	27.8 %	15.1 %	29.0 %
Net earnings	$4,673	$3,328	$2,196	$1,749
Diluted earnings per share	$7.88	$5.41	$3.73	$2.87
Non-GAAP [1]				
Core operating earnings	$4,903	$4,033	$2,393	$2,173
Core operating margins	10.3 %	9.0 %	9.9 %	9.4 %
Core earnings per share	$6.97	$4.67	$3.33	$2.49

(1) These measures exclude certain components of pension and other postretirement benefit expense. See page 53 for important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Revenues

The following table summarizes Revenues:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$28,133	$27,233	$14,481	$14,280
Defense, Space & Security	11,355	10,254	5,593	5,142
Global Services	8,033	7,205	4,090	3,552
Boeing Capital	137	164	72	72
Unallocated items, eliminations and other	(18)	156	22	5
Total	$47,640	$45,012	$24,258	$23,051

Revenues for the six months ended June 30, 2018 increased by $2,628 million compared with the same period in 2017. Commercial Airplanes (BCA) revenues increased by $900 million primarily due to higher deliveries and favorable mix. Defense, Space & Security (BDS) revenues increased by $1,101 million primarily due to non-US contract awards for fighters and C-17 aircraft as well as higher weapons revenue. Global Services (BGS) revenues increased by $828 million, primarily due to growth across our services portfolio.

Revenues for the three months ended June 30, 2018 increased by $1,207 million compared with the same period in 2017. BCA revenues increased by $201 million primarily due to higher deliveries and mix. BDS revenues increased by $451 million primarily due to a non-US F/A-18 contract award and higher weapons revenue. BGS revenues increased by $538 million, primarily due to growth across our services portfolio.

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Earnings From Operations

The following table summarizes Earnings from operations:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$3,152	$2,152	$1,644	$1,282
Defense, Space & Security	1,170	1,163	521	614
Global Services	1,247	1,192	603	569
Boeing Capital	44	64	24	25
Segment operating profit	5,613	4,571	2,792	2,490
Pension FAS/CAS service cost adjustment	520	540	237	278
Postretirement FAS/CAS service cost adjustment	162	163	80	79
Unallocated Items, Eliminations and Other	(710)	(538)	(399)	(317)
Earnings from operations (GAAP)	$5,585	$4,736	$2,710	$2,530
FAS/CAS service cost adjustment *	(682)	(703)	(317)	(357)
Core operating earnings (Non-GAAP) **	$4,903	$4,033	$2,393	$2,173

* The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments.

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

Earnings from operations for the six months ended June 30, 2018 increased by $849 million compared with the same period in 2017, primarily due to higher earnings at BCA. BCA's earnings increased $1,000 million primarily due to improved cost performance on airplane programs, higher deliveries and mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges.

Earnings from operations for the three months ended June 30, 2018 increased by $180 million compared with the same period in 2017, primarily due to higher earnings at BCA, partially offset by lower earnings at BDS. BCA's earnings increased $362 million primarily due to improved cost performance on airplane programs, higher deliveries and mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges. BDS earnings from operations for the three months ended June 30, 2018 decreased by $93 million, compared with the same period in 2017 primarily due to higher charges on the KC-46A Tanker program and lower earnings from other cumulative catch-up adjustments which more than offset earnings from the non-US F/A-18 contract award.

During the six months ended June 30, 2018 we recorded reach-forward losses related to the KC-46A Tanker program of $507 million, of which $359 million was recorded at BCA and $139 million at BDS. During the three months ended June 30, 2018 we recorded reach-forward losses related to the KC-46A Tanker program of $426 million, of which $307 million was recorded at BCA and $111 million at BDS. During the six months ended June 30, 2017, we recorded reach-forward losses of $132 million on the KC-46A Tanker program of which $118 million was recorded at BCA.

Core operating earnings for the six and three months ended June 30, 2018 increased by $870 million and $220 million compared with the same periods in 2017 primarily due to higher earnings at BCA.

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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)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Share-based plans	($36)	($46)	($18)	($25)
Deferred compensation	(56)	(96)	(27)	(46)
Eliminations and other unallocated items	(470)	(396)	(206)	(246)
Litigation outcome	(148)		(148)	
Unallocated items, eliminations and other	($710)	($538)	($399)	($317)

The deferred compensation expense decreased by $40 million and $19 million for the six and three months ended June 30, 2018 compared with the same periods in 2017 primarily driven by changes in broad market conditions. In the second quarter of 2018, we recorded a charge of $148 million related to the outcome of the Spirit litigation, including the write-off of $137 million of receivables. See the discussion in Note 9 to our Condensed Consolidated Financial Statements.

Eliminations and other unallocated items increased by $74 million for the six months ended and decreased by $40 million for the three months ended June 30, 2018 compared with the same periods in 2017 primarily due to the timing of expense allocations and the elimination of profit on intercompany aircraft.

The components of net periodic benefit cost are shown in the following table:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
Pension Plans	2018	2017	2018	2017
Service cost	$215	$201	$107	$100
Interest cost	1,390	1,496	695	748
Expected return on plan assets	(2,005)	(1,922)	(1,003)	(961)
Amortization of prior service (credits)/costs	(28)	(20)	(14)	(10)
Recognized net actuarial loss	565	402	283	201
Settlement/curtailment/other losses	43	1	43	
Net periodic benefit cost	$180	$158	$111	$78

The increase in net periodic pension benefit cost for the six and three months ended June 30, 2018 of $22 million and $33 million compared with the same periods in 2017 is primarily higher amortization of actuarial losses driven by lower discount rates of 3.6% at December 31, 2017 compared with 4.0% at December 31, 2016 and higher costs related to curtailments and other benefit changes associated with certain of our defined benefit plans, partially offset by lower interest costs and improved expected returns, as a result of the higher value of plan assets at December 31, 2017 compared to 2016.

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A portion of service cost is recognized in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods. Net periodic pension benefit costs included in Earnings from operations were as follows:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
Pension Plans	2018	2017	2018	2017
Allocated to business segments	($678)	($793)	($313)	($400)
Pension FAS/CAS service cost adjustment	520	540	237	278
Net periodic benefit cost included in Earnings from operations	($158)	($253)	($76)	($122)

The pension FAS/CAS service cost adjustment recognized in earnings in 2018 is largely consistent with the same period in the prior year.

Other Earnings Items

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Earnings from operations	$5,585	$4,736	$2,710	$2,530
Other income/(loss), net	51	51	(15)	25
Interest and debt expense	(211)	(180)	(109)	(93)
Earnings from operations	5,425	4,607	2,586	2,462
Income tax expense	(752)	(1,279)	(390)	(713)
Net earnings from continuing operations	$4,673	$3,328	$2,196	$1,749

Other income/(loss), net decreased by $40 million during the three months ended June 30, 2018, primarily due to lower non-operating pension benefits and lower gains from foreign exchange, partially offset by higher interest income.

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

Total Costs and Expenses (“Cost of Sales”)

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

(Dollars in millions)	Six months ended June 30			Three months ended June 30		
	2018	2017	Change	2018	2017	Change
Cost of sales	$38,360	$36,775	$1,585	$19,536	$18,702	$834
Cost of sales as a % of Revenues	80.5%	81.7%	(1.2)%	80.5%	81.1%	(0.6)%

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Cost of sales for the six and three months ended June 30, 2018 increased by $1,585 million, or 4% and by $834 million or 4% compared with the same periods in 2017, primarily due to a 6% and 5% increase in revenue during each period, partially offset by improved performance.

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$1,099	$1,217	$550	$592
Defense, Space & Security	402	392	219	196
Global Services	71	63	37	35
Other	19	(23)	21	(10)
Total	$1,591	$1,649	$827	$813

Research and development expense for the six months ended June 30, 2018 decreased by $58 million compared with the same period in 2017 primarily due to lower 777X spend.

Backlog The following table summarizes our backlog, restated for the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606):

Total Backlog (Dollars in millions)	June 30 2018	December 31 2017
Commercial Airplanes	$415,723	$410,446
Defense, Space & Security	51,925	44,049
Global Services	20,388	19,605
Total Backlog	$488,036	$474,100
Contractual backlog	$464,237	$456,444
Unobligated backlog	23,799	17,656
Total Backlog	$488,036	$474,100

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The increase during the six months ended June 30, 2018 was primarily due to orders and funding in excess of deliveries.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The increase during the six months ended June 30, 2018 was primarily due to contract awards, partially offset by reclassifications to contractual backlog related to BDS and BGS contracts.

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. In 2015, we began work on low rate initial production (LRIP) aircraft for the USAF. In 2016, following our achievement of key flight testing milestones, the USAF authorized two LRIP lots for 7 and 12 aircraft valued at $2.8 billion and in 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. The contract contains production options for both LRIP aircraft and full rate production aircraft. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately $30 billion. The EMD contract is currently in the certification and flight testing phases and we expect deliveries to begin in the fourth quarter of 2018.

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During 2017, we recorded reach-forward losses of $446 million related to this program, primarily reflecting higher estimated costs associated with certification and incorporating changes into LRIP aircraft. In the first quarter of 2018, we recorded additional reach-forward losses of $81 million primarily reflecting higher estimated costs associated with certification and continued flight testing. In the second quarter of 2018, we recorded further reach-forward losses of $426 million, primarily reflecting higher estimated costs associated with change incorporation on six flight test and two early build aircraft. The additional rework required for the flight test and early build aircraft was identified during the second quarter upon completion of engineering and configuration studies. In addition, delays in certification and testing have resulted in higher costs and increased rework for both completed and in-production aircraft. As with any development program, this program remains subject to additional reach-forward losses and/or delivery delays if we experience further production, technical or quality issues, and delays in certification and/or flight testing.

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.

Global Trade On June 1, 2018, the U.S. Government began imposing tariffs on steel and aluminum imports. In response to these tariffs, several major U.S. trading partners have imposed, or announced their intention to impose, tariffs on U.S. goods. We continue to monitor the potential for any extra costs that may result from these actions.

On July 6, 2018, the U.S. and China began imposing tariffs on approximately $34 billion of each other's exports. Certain aircraft parts and components that Boeing procures are subject to these tariffs. Both the U.S. and Chinese governments have identified additional tariffs that could be imposed in the third quarter. We continue to monitor the potential for disruption and adverse revenue and/or cost impacts that may result from these actions.

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

Segment Results of Operations and Financial Condition

Commercial Airplanes

Business Environments and Trends

Airline Industry Environment

Our updated 20-year forecast, published in July 2018, projects a long-term average growth rate of 4.7% per year for passenger traffic and 4.2% for cargo traffic. Based on long-term global economic growth projections of 2.8% average annual GDP growth, we project a $6.3 trillion market for 42,700 new airplanes over the next 20 years.

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Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$28,133	$27,233	$14,481	$14,280
Earnings from operations:	$3,152	$2,152	$1,644	$1,282
Operating margins	11.2 %	7.9 %	11.4 %	9.0 %

Revenues

Revenues for the six and three months ended June 30, 2018 increased by $900 million and $201 million, or 3% and 1%, compared with the same periods in 2017 primarily due to higher deliveries and favorable mix.

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

	737	*	747	†	767	777	787	Total
Deliveries during the first six months of 2018	269	(10)	3		9	25	72	378
Deliveries during the first six months of 2017	236	(9)	4	(1)	5	42	65	352
Deliveries during the second quarter of 2018	137	(5)	1		5	13	38	194
Deliveries during the second quarter of 2017	123	(4)	3		3	21	33	183
Cumulative deliveries as of 6/30/2018	7,001		1,545		1,115	1,559	708	
Cumulative deliveries as of 12/31/2017	6,732		1,542		1,106	1,534	636	

* Intercompany deliveries identified by parentheses

† Aircraft accounted for as revenues by BCA and as a note receivable in consolidation identified by parentheses

Earnings From Operations

Earnings from operations for the six and three months ended June 30, 2018 increased by $1,000 million and $362 million compared with the same periods in 2017. The increases reflect higher margins on airplane programs, improved cost performance, higher deliveries and favorable mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges.

During the six and three months ended June 30, 2018, Commercial Airplanes recorded reach-forward losses of $359 million and $307 million related to the KC-46A Tanker program. During the six months ended June 30, 2017, we recorded reach-forward losses of $118 million.

Backlog

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

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BCA total backlog increased from $410,446 million as of December 31, 2017 to $415,723 million at June 30, 2018 primarily due to orders in excess of deliveries.

Accounting Quantity

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

	Program								
As of 6/30/2018	737	†	747*	767	777	777X	787	†
Program accounting quantities	10,200		1,570	1,195	1,650	**	1,500	
Undelivered units under firm orders	4,667	(75)	23	109	96	326	655	(22)
Cumulative firm orders	11,668	(75)	1,568	1,224	1,655	326	1,363	(22)
As of 12/31/2017	737		747	767	777	777X	787	
Program accounting quantities	9,800		1,570	1,171	1,625	**	1,400	
Undelivered units under firm orders***	4,617		12	98	97	326	644	
Cumulative firm orders***	11,349		1,554	1,204	1,631	326	1,280	

† Aircraft ordered by BCC are identified in parentheses

* At June 30, 2018, the 747 accounting quantity has 24 undelivered aircraft, including one already completed aircraft that has not been sold and is being remarketed.

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

*** Cumulative firm orders adjusted to reflect the adoption of Topic 606 in the first quarter of 2018.

Program Highlights

737 Program The accounting quantity for the 737 program increased by 200 units during the three months ended June 30, 2018 and by 400 units during the six months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. The production rate increased from 47 per month to 52 per month in the second quarter of 2018. We plan to further increase the rate to 57 per month in 2019. We delivered the first 737 MAX 9 in March 2018.

747 Program In the first quarter of 2018, we received firm orders for 14 aircraft and we are currently producing at a rate of 0.5 aircraft per month. We continue to evaluate the viability of the 747 program and it is reasonably possible that we could decide to end production of the 747.

767 Program The accounting quantity for the 767 program increased by 24 units during the three months ended March 31, 2018 due to the program's normal 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 rate of 2.5 per month and plan to increase to 3 per month in 2020.

777 Program The accounting quantity for the 777 program increased by 25 units during the three months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 5 per month. In 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 The accounting quantity for the 787 program increased by 100 units during the three months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 12 per month and plan to increase to 14 per month in 2019. We delivered the first 787-10 in March 2018.

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Additional Considerations

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

Defense, Space & Security

Business Environment and Trends

United States Government Defense Environment Overview

The Bipartisan Budget Act of 2018, passed in February 2018, raised the 2011 Budget Control Act spending caps for fiscal years 2018 and 2019 (FY18 and FY19). In addition, the FY18 Omnibus spending bill signed into law on March 23, 2018 provides funding for the remainder of the fiscal year. However, the 2011 Budget Control Act continues to mandate limits on U.S. government discretionary spending and remains in effect for fiscal years 2020 and 2021. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless Congress acts to repeal or suspend this law.

There continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA). Although FY19 spending topline levels have been agreed to, the lower budget caps and sequestration will take effect again in fiscal years 2020 and 2021 unless Congress acts to raise the caps or to repeal or suspend the law. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company’s operations, financial position and/or cash flows.

Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$11,355	$10,254	$5,593	$5,142
Earnings from operations	$1,170	$1,163	$521	$614
Operating margins	10.3 %	11.3 %	9.3 %	11.9 %

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

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

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
F/A-18 Models	5	12		6
F-15 Models	5	7	3	4
CH-47 Chinook (New)	9	4	5	1
CH-47 Chinook (Renewed)	8	19	4	10
AH-64 Apache (New)		5		2
AH-64 Apache (Remanufactured)	6	28		15
P-8 Models	8	9	4	5
Total	41	84	16	43

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Revenues

BDS revenues for the six months ended June 30, 2018 increased by $1,101 million, or 11% compared with the same period in 2017, primarily due to non-US contract awards for fighters and C-17 aircraft as well as higher weapons revenue. Net favorable cumulative contract catch-up adjustments to revenue for the six months ended June 30, 2018 were $236 million lower compared with the same period in 2017.

BDS revenues for the three months ended June 30, 2018 increased by $451 million, or 9% compared with the same period in 2017, primarily due to a non-US F/A-18 contract award and higher weapons revenue. Net favorable cumulative contract catch-up adjustments to revenue for the three months ended June 30, 2018, were $153 million lower compared with the same period in 2017.

Earnings From Operations

BDS earnings from operations for the six months ended June 30, 2018 increased by $7 million, compared with the same period in 2017 primarily due to non-US contract awards for fighters and C-17 aircraft partially offset by higher charges on the KC-46A Tanker program.

BDS earnings from operations for the three months ended June 30, 2018 decreased by $93 million, or 15% compared with the same period in 2017 primarily due to higher charges on the KC-46A Tanker program and lower earnings from other cumulative catch-up adjustments which more than offset earnings from the non-US F/A-18 contract award.

Net favorable cumulative contract catch-up adjustments in the six and three months ended June 30, 2018 were $291 million and $208 million lower than the same periods in the prior year reflecting higher reach-forward losses recorded on the KC-46A Tanker program in 2018 and larger net favorable cumulative contract catch-up adjustments in 2017 primarily related to the vertical lift and F-15 programs.

During the six and three months ended June 30, 2018, BDS recorded reach-forward losses of $139 million and $111 million related to the KC-46A Tanker program.

BDS earnings from operations include equity earnings of $91 million and $11 million for the six and three months ended June 30, 2018 compared to $113 million and $37 million for the same periods in 2017 primarily reflecting earnings on our United Launch Alliance (ULA) and non-US joint ventures.

Backlog

Total backlog increased from $44,049 million at December 31, 2017 to $51,925 million at June 30, 2018 primarily due to current year contract awards, including Ground-based Midcourse Defense, vertical lift, fighters and satellites, partially offset by revenue recognized on contracts awarded in prior years.

Additional Considerations

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

Some of our development programs are contracted on a fixed-price basis and BDS customers are increasingly seeking fixed priced proposals for new programs. New programs could have risk for reach-forward loss upon contract award and during the period of contract performance. Many development programs have highly complex designs. As technical or quality issues arise during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger

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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 USAF KC-46A Tanker, Commercial Crew, Saudi F-15, and commercial and military satellites.

KC-46A Tanker See the discussion of the KC-46A Tanker program on page 42.

United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 5, 10 and 11 of our Condensed Consolidated Financial Statements.

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

Commercial Crew See the discussion of Fixed-Price Development Contracts in Note 10 to our Condensed Consolidated Financial Statements.

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Global Services

Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$8,033	$7,205	$4,090	$3,552
Earnings from operations	$1,247	$1,192	$603	$569
Operating margins	15.5 %	16.5 %	14.7 %	16.0 %

Revenues

BGS revenues for the six and three months ended June 30, 2018 increased by $828 million and $538 million compared with the same periods in 2017 primarily due to growth across our services portfolio. Net favorable cumulative contract catch-up adjustments to revenue were $47 million lower and $33 million lower for the six and three months ended June 30, 2018 compared with the same periods in 2017.

Earnings From Operations

BGS earnings from operations for the six and three months ended June 30, 2018 increased by $55 million and $34 million compared with the same periods in 2017 primarily due to higher revenues. Net favorable cumulative contract catch-up adjustments were lower by $67 million and $39 million for the six and three months ended June 30, 2018 compared with the same periods in 2017.

Backlog

BGS total backlog increased from $19,605 million as of December 31, 2017 to $20,388 million at June 30, 2018, primarily due to current year contract awards, partially offset by revenue recognized on contracts awarded in prior years.

Additional Considerations

KLX See the discussion of the KLX acquisition in Note 11 to our Condensed Consolidated Financial Statements.

Boeing Capital

Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$137	$164	$72	$72
Earnings from operations	$44	$64	$24	$25
Operating margins	32 %	39 %	33 %	35 %

Revenues

Boeing Capital (BCC) segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC’s revenues for the six months ended June 30, 2018 decreased by $27 million compared with the same period in 2017 primarily due to lower lease income driven by a smaller portfolio.

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Earnings From Operations

BCC's earnings from operations are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from operations for the six months ended June 30, 2018 decreased by $20 million compared with the same periods in 2017, primarily due to lower revenues.

Financial Position

The following table presents selected financial data for BCC:

(Dollars in millions)	June 30 2018	December 31 2017
Customer financing and investment portfolio, net	$3,027	$3,003
Other assets, primarily cash and short-term investments	525	677
Total assets	$3,552	$3,680
Other liabilities, primarily deferred income taxes	$561	$653
Debt, including intercompany loans	2,492	2,523
Equity	499	504
Total liabilities and equity	$3,552	$3,680
Debt-to-equity ratio	5.0-to-1	5.0-to-1

BCC's customer financing and investment portfolio at June 30, 2018 increased slightly from December 31, 2017 primarily due to new volume of $452 million partially offset by note payoffs, asset sales and portfolio run-off.

At June 30, 2018, BCC had $68 million of assets that were held for sale or re-lease. In addition, aircraft subject to leases with a carrying value of approximately $50 million are scheduled to be returned off lease in the next 12 months. We are seeking to remarket these aircraft or have the leases extended.

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.

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Liquidity and Capital Resources

Cash Flow Summary

(Dollars in millions)	Six months ended June 30	
	2018	2017
Net earnings	$4,673	$3,328
Non-cash items	1,253	1,240
Changes in working capital	1,890	2,479
Net cash provided by operating activities	7,816	7,047
Net cash used by investing activities	(1,295)	(1,383)
Net cash used by financing activities	(7,177)	(5,774)
Effect of exchange rate changes on cash and cash equivalents	(36)	52
Net decrease in cash & cash equivalents, including restricted	(692)	(58)
Cash & cash equivalents, including restricted, at beginning of year	8,887	8,869
Cash & cash equivalents, including restricted, at end of period	$8,195	$8,811

Operating Activities Net cash provided by operating activities was $7.8 billion during the six months ended June 30, 2018, compared with $7.0 billion during the same period in 2017. The year-over-year improvement reflects higher earnings and lower spending on inventory, partially offset by lower advances. Advances and progress billings increased by $2.9 billion and $3.9 billion during the six months ended June 30, 2018 and 2017. Inventories decreased by $0.1 billion during the six months ended June 30, 2018, primarily due to lower expenditures on commercial airplane program inventory, primarily 787 compared with an increase of $1.2 billion during the same period in the prior year. Unbilled receivables increased by $1.7 billion during the six months ended June 30, 2018, reflecting revenue recognized on contracts awarded in the first half of 2018 compared with an increase of $1.0 billion during the comparable period in the prior year.

Investing Activities Cash used by investing activities was $1.3 billion during the six months ended June 30, 2018, compared with cash used of $1.4 billion during the same period in 2017, primarily due to the timing of investments and capital expenditures. In the six months ended June 30, 2018 and 2017, capital expenditures totaled $0.8 billion and $0.9 billion. We expect capital expenditures in 2018 to be higher than 2017.

Financing Activities Cash used by financing activities was $7.2 billion, compared with $5.8 billion during the same period in 2017, primarily reflecting higher share repurchases and dividend payments. During the six months ended June 30, 2018, net borrowings increased by $0.9 billion from $0.8 billion in the same period in 2017.

At June 30, 2018, the recorded balance of debt was $12.1 billion, of which $1.6 billion was classified as short-term. Debt, including intercompany loans, attributable to BCC totaled $2.5 billion, of which $0.5 billion was classified as short-term.

During the six months ended June 30, 2018 we repurchased 17.4 million shares totaling $6.0 billion through our open market share repurchase program. In addition, 0.7 million shares were transferred to us from employees for tax withholdings. At June 30, 2018, the amount available under the share repurchase plan, announced on December 11, 2017, totaled $12.0 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 serves as a source of short-term liquidity. At June 30, 2018 and December 31, 2017 commercial paper borrowings totaling $600 million were supported by unused commitments under the revolving credit agreement. 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.

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Financing commitments totaled $19.1 billion and $10.2 billion at June 30, 2018 and December 31, 2017.The increase primarily relates to commercial airplane orders received in 2018. 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 or in the debt markets.

At June 30, 2018, we were in compliance with the covenants for our debt and credit facilities. The most restrictive covenants include a limitation on mortgage debt and sale and leaseback transactions as a percentage of consolidated net tangible assets (as defined in the credit agreements), and a limitation on consolidated debt as a percentage of total capital (as defined). When considering debt covenants, we continue to have substantial borrowing capacity.

Off-Balance Sheet Arrangements

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 11 to our Condensed Consolidated Financial Statements.

Contingent Obligations

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

Legal Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 18 to our Condensed Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $534 million at June 30, 2018. For additional information, see Note 10 to our Condensed Consolidated Financial Statements.

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Non-GAAP Measures

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

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

The Pension FAS/CAS service cost adjustments recognized in earnings were benefits of $520 million and $237 million for the six and three months ended June 30, 2018, largely consistent with the benefits of $540 million and $278 million during the same periods in 2017. The non-operating pension expenses included in Other income/(loss), net were benefits of $48 million and $6 million for the six and three months ended June 30, 2018 compared with $62 million and $28 million for the same periods in 2017. The benefits in 2018 reflect lower interest costs and improved expected returns, as a result of the higher value of plan assets at December 31, 2017 compared to 2016. These are more than offset by higher amortization of actuarial losses driven by lower discount rates, and charges of $43 million related to curtailments and other benefit changes associated with certain of our defined benefit plans recorded in the six and three months ended June 30, 2018.

For further discussion of pension and other postretirement costs see the Management’s Discussion and Analysis on page 40 of this Form 10-Q and on page 43 of our 2017 Annual Report on Form 10-K. Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost, primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

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Reconciliation of GAAP Measures to Non-GAAP Measures

The table below reconciles the non-GAAP financial measures of core operating earnings, 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)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$47,640	$45,012	$24,258	$23,051
Earnings from operations, as reported	$5,585	$4,736	$2,710	$2,530
Operating margins	11.7 %	10.5 %	11.2 %	11.0 %
Pension FAS/CAS service cost adjustment [1]	($520)	($540)	($237)	($278)
Postretirement FAS/CAS service cost adjustment [1]	($162)	($163)	($80)	($79)
FAS/CAS service cost adjustment [1]	($682)	($703)	($317)	($357)
Core operating earnings (non-GAAP)	$4,903	$4,033	$2,393	$2,173
Core operating margins (non-GAAP)	10.3 %	9.0 %	9.9 %	9.4 %
Diluted earnings per share, as reported	$7.88	$5.41	$3.73	$2.87
Pension FAS/CAS service cost adjustment [1]	(0.88)	(0.88)	(0.40)	(0.46)
Postretirement FAS/CAS service cost adjustment [1]	(0.27)	(0.26)	(0.14)	(0.13)
Non-operating pension expense [2]	(0.08)	(0.10)	(0.01)	(0.05)
Non-operating postretirement expense [2]	0.08	0.10	0.04	0.05
Provision for deferred income taxes on adjustments [3]	0.24	0.40	$0.11	$0.21
Core earnings per share (non-GAAP)	$6.97	$4.67	$3.33	$2.49
Weighted average diluted shares (in millions)	592.9	615.3	588.7	609.6

(1) FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. This adjustment is excluded from Core operating earnings (non-GAAP)

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our market risk since December 31, 2017.

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Item 4. Controls and Procedures

(a)Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of June 30, 2018 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b)Changes in Internal Control Over Financial Reporting.

There were no changes that occurred during the second quarter of 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 18 to our Condensed Consolidated Financial Statements, which is hereby incorporated by reference.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended June 30, 2018 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs [2]
4/1/2018 thru 4/30/2018	3,000,599	$333.53	2,998,273	$14,000
5/1/2018 thru 5/31/2018	3,826,975	345.95	3,800,799	12,685
6/1/2018 thru 6/30/2018	1,776,265	366.06	1,774,530	12,035
Total	8,603,839	$345.77	8,573,602	

(1) We purchased an aggregate of 8,573,602 shares of our common stock in the open market pursuant to our repurchase program and 30,237 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We did not purchase shares in swap transactions.

(2) On December 11, 2017, we announced a new repurchase plan for up to $18 billion of common stock, replacing the plan previously authorized in 2016.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

10.1	Deferred Compensation Plan for Employees of The Boeing Company, as amended and restated on June 25, 2018, effective July 1, 2018*
10.2	Supplemental Benefit Plan for Employees of The Boeing Company, as amended and restated on June 25, 2018, effective July 1, 2018*
12	Computation of Ratio of Earnings to Fixed Charges
15	Letter from Independent Registered Public Accounting Firm regarding unaudited interim financial information
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BOEING COMPANY
(Registrant)

July 25, 2018 /s/ Robert E. Verbeck
(Date) Robert E. Verbeck – Senior Vice President, Finance and Corporate Controller