BOEING CO
Form 10-K
February 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2010**

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

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

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

Common Stock, $5 par value	New York Stock Exchange
(Title of each class)	**(Name of each exchange on which registered)**

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

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

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

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

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

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

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

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

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

As of June 30, 2010, there were 731,190,389 common shares outstanding held by nonaffiliates of the registrant, and the aggregate market value of the common shares (based upon the closing price of these shares on the New York Stock Exchange) was approximately $45.9 billion.

The number of shares of the registrant s common stock outstanding as of February 1, 2011 was 736,295,504.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to the registrant s definitive proxy statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2010.

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THE BOEING COMPANY

Index to the Form 10-K

For the Fiscal Year Ended December 31, 2010

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Item 1. Business

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

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

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

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

Commercial Airplanes Segment

The Commercial Airplanes segment develops, produces and markets commercial jet aircraft and provides related support services, principally to the commercial airline industry worldwide. We are a leading producer of commercial aircraft and offer a family of commercial jetliners designed to meet a broad spectrum of passenger and cargo requirements of domestic and non-U.S. airlines. This family of commercial jet aircraft in production includes the 737 narrow-body model and the 767 and 777 wide-body models. The 747-8 and 787 wide-body models are currently under development. The Commercial Airplanes segment also offers aviation services support, aircraft modifications, spares, training, maintenance documents and technical advice to commercial and government customers worldwide.

Boeing Defense, Space & Security

Our BDS operations principally involve research, development, production, modification and support of the following products and related systems: global strike systems, including fighters, bombers, combat rotorcraft systems, weapons and unmanned systems; global mobility systems, including transport and tanker aircraft, rotorcraft transport and tilt-rotor systems; airborne surveillance and reconnaissance aircraft, including command and control, battle management and airborne anti-submarine aircraft; network and tactical systems, including information and battle management systems; intelligence and security systems; missile defense systems; space and intelligence systems, including satellites and commercial satellite launching vehicles; and space exploration. BDS is committed to providing affordable, best-of-industry solutions and brings value to customers through its ability to solve the most complex problems utilizing expertise in large-scale systems integration, knowledge of legacy platforms and development of common network-enabled solutions across all customers domains. BDS primary customer is the United States Department of Defense (U.S. DoD) with 82% of BDS 2010 revenues being derived from this customer. Other significant revenues were derived from the National Aeronautics and Space Administration (NASA) and international defense markets, civil markets and commercial satellite markets. BDS consists of three capabilities-driven businesses: BMA, N&SS and GS&S. Additionally, the Phantom Works group is an integrated team that works with the three businesses via product development, rapid prototyping and customer engagement through experimentation and enterprise technology investment strategies.

Boeing Military Aircraft Segment

This segment is engaged in the research, development, production and modification of manned and unmanned military weapons systems for the global strike, mobility and surveillance and engagement markets as well as related services. Included in this segment are the A160 Hummingbird, AH-64 Apache, Airborne Early Warning and Control (AEW&C), CH-47 Chinook, C-17 Globemaster, EA-18G Growler Airborne Attack Electronic Aircraft, F/A-18E/F Super Hornet, F-15 Strike Eagle, F-22 Raptor, Harpoon, KC-767 International Tanker, Joint Direct Attack Munition, P-8A Poseidon, P8-I, ScanEagle, Small Diameter Bomb and V-22 Osprey.

Network & Space Systems Segment

This segment is engaged in the research, development, production and modification of products and services to assist our customers in transforming their operations through network integration, information, intelligence and surveillance systems, communications, architectures and space exploration. Included in this segment are the Airborne Laser, Family of Advanced Beyond Line-of-Sight Terminals (FAB-T), Brigade Combat Team Modernization (BCTM), Future Rapid Effects System, Global Positioning System, Ground-based Midcourse Defense (GMD), International Space Station, Joint Tactical Radio System (JTRS), Satellite Systems, Cyber and Security Programs, Space Payloads and Space Shuttle.

Global Services & Support Segment

This segment is engaged in the operations, maintenance, training, upgrades and logistics support functions for military platforms and operations. Included in this segment are the following activities: Integrated Logistics on platforms including AH-64, AV-8B, C-17, CH-47, F-15, F/A-18, F-22, GMD, KC-767 International Tanker and V-22; Maintenance, Modifications and Upgrades on platforms including A-10, B-1, B-52, C-32, C-40, C-130, E-4B, E-6, KC-10, KC-135, T-38 and VC-25; Training Systems and Services on platforms including AH-64, C-17, F-15, F-16, F/A-18 and T-45; and Defense and Government Services including the UK Future Logistics Information Services program.

Boeing Capital Corporation Segment

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

Financial and Other Business Information

See page 55 for the Summary of Business Segment Data and Note 21 to our Consolidated Financial Statements for financial information, including revenues and earnings from operations, for each of our business segments.

Intellectual Property

We own numerous patents and have licenses for the use of patents owned by others, which relate to our products and their manufacture. In addition to owning a large portfolio of intellectual property, we also license intellectual property to and from third parties. For example, the U.S. government has licenses in our patents that are developed in performance of government contracts, and it may use or authorize others to use the inventions covered by such patents for government purposes. Unpatented

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research, development and engineering skills, as well as certain trademarks and other intellectual property rights, also make an important contribution to our business. While our intellectual property rights in the aggregate are important to the operation of each of our businesses, we do not believe that our business would be materially affected by the expiration of any particular intellectual property right or termination of any particular intellectual property patent license agreement.

Non-U.S. Revenues

See Note 21 to our Consolidated Financial Statements for information regarding non-U.S. revenues.

Research and Development

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

Our total research and development expense amounted to $4.1 billion, $6.5 billion and $3.8 billion in 2010, 2009 and 2008, respectively. The 2008 amount is net of 787-related research and development cost sharing payments from suppliers of $50 million. Research and development expense in 2009 included $2.7 billion of production costs related to the first three flight test 787 aircraft that cannot be sold due to the inordinate amount of rework and unique and extensive modifications that would be made to the aircraft.

Research and development costs also include bid and proposal efforts related to government products and services, as well as costs incurred in excess of amounts estimated to be recoverable under cost-sharing research and development agreements. Bid and proposal costs were $355 million, $343 million and $330 million in 2010, 2009 and 2008, respectively.

Research and development highlights for each of the major business segments are discussed in more detail in Segment Results of Operations and Financial Condition on pages 22   38.

Employees

Total workforce level at December 31, 2010 was 160,500.

As of December 31, 2010, our principal collective bargaining agreements were with the following unions:

Union	Percent of our Employees Represented	Status of the Agreements with the Union
The International Association of Machinists and Aerospace Workers (IAM)	19%	We have two major agreements; one expiring in September of 2012 and one in January of 2015.
The Society of Professional Engineering Employees in Aerospace (SPEEA)	13%	We have two major agreements expiring in October of 2012.
The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)	2%	We have two major agreements; one expiring in October of 2014 and one in February of 2015.

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Competition

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

BDS faces strong competition in all market segments, primarily from Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company and General Dynamics Corporation. Non-U.S. companies such as BAE Systems and European Aeronautic Defence and Space Company (EADS), the parent of Airbus, continue to build a strategic presence in the U.S. market by strengthening their North American operations and partnering with U.S. defense companies. In addition, certain of our competitors have occasionally formed teams with other competitors to address specific customer requirements. BDS expects the trend of strong competition to continue into 2011 with many international firms pursuing announced intentions of increasing their U.S. presence.

Regulatory Matters

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

U.S. Government Contracts. The U.S. government, and other governments, may terminate any of our government contracts at their convenience, as well as for default, based on our failure to meet specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and can require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default.

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

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

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A Potentially Responsible Party (PRP) has joint and several liability under existing U.S. environmental laws. Where we have been designated a PRP by the Environmental Protection Agency or a state environmental agency, we are potentially liable to the government or third parties for the full cost of remediating contamination at our facilities or former facilities or at third-party sites. If we were required to fully fund the remediation of a site, the statutory framework would allow us to pursue rights to contribution from other PRPs. For additional information relating to environmental contingencies, see Note 11 to our Consolidated Financial Statements.

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

Raw Materials

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

Suppliers

We are dependent upon the ability of a large number of suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at anticipated costs. While we maintain an extensive qualification and performance surveillance system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could adversely affect production schedules and program/contract profitability, thereby jeopardizing our ability to fulfill commitments to our customers. We are also dependent on the availability of energy sources, such as electricity, at affordable prices. A number of our suppliers have made assertions for higher prices or other contractual compensation relief which could affect program/contract profitability.

Seasonality

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

Other Information

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

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

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Forward-Looking Statements

This report, as well as our Annual Report to Shareholders, quarterly reports, and other filings we make with the SEC, press releases and other written and oral communications, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as may, will, should, expects, intends, projects, believes, estimates, targets, anticipates and similar expressi identify these forward-looking statements. Forward-looking statements include any statement that does not directly relate to any historical or current fact.

Forward-looking statements are based on our current expectations and assumptions, which may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict. Many factors, including those set forth in the Risk Factors section below, could cause actual results to differ materially and adversely from these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we assume no obligation to publicly update any forward-looking statement, except as required by law.

Item 1A. Risk Factors

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

Our commercial aircraft business depends heavily on commercial airlines and our suppliers, and is subject to unique risks.

Our ability to deliver aircraft on time depends on a variety of factors, which are subject to unique risks. Our ability to deliver aircraft on schedule is dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials (such as aluminum, titanium and composites) and internally and supplier produced parts and structures, conversion of raw materials into parts and assemblies, performance of suppliers and subcontractors and regulatory certification. The failure of any or all of these factors could result in significant out-of-sequence work and disrupted process flows adversely affecting production schedules and program/contract profitability, the latter through increased costs as well as possible customer and/or supplier claims or assertions. In addition, the introduction of new commercial aircraft programs and major derivative aircraft involves increased risk associated with meeting development, production and certification schedules.

Market conditions have a significant impact on our ability to sell aircraft into the future. The worldwide market for commercial jet aircraft is predominantly driven by long-term trends in airline passenger and cargo traffic. The principal factors underlying long-term traffic growth are sustained economic growth and political stability, both in developed and emerging countries. Demand for our commercial aircraft is further influenced by airline industry profitability, world trade policies, availability of financing, government-to-government relations, terrorism, disease outbreaks, environmental constraints imposed upon aircraft operations, technological changes and price and other competitive factors.

Our commercial aircraft customers may request to cancel, modify or reschedule orders. We generally make sales under aircraft purchase agreements that may, for a variety of reasons, become the subject of cancellation, modification or rescheduling. Changes in the economic environment and the financial condition of the airline industry and our customers could result in customer requests to reschedule or cancel contractual orders. Our contracts have specific provisions relating to schedule and performance and failure to deliver airplanes in accordance with such provisions could result in cancellations and/or claims for compensation. Any such cancellations, modification, rescheduling or claims could significantly reduce our backlog, revenues, profitability and cash flows.

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Commercial aircraft pricing is based in part on escalation formulas established well in advance of delivery and is therefore subject to factors beyond our control. Price escalation provisions in our sales contracts are designed to adjust for economic fluctuations between the contract date and aircraft delivery, a period which can span many years. As a result, aircraft pricing generally consists of a fixed amount as modified by a price escalation formula using pre-defined factors. Our revenue estimates are based on current expectations with respect to these escalation formulas. Changes in escalation amounts can significantly impact revenues and operating margins in our Commercial Airplanes business.

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

Our commercial aircraft production rates could change. Production rate reductions could cause us to incur disruption and other costs and result in infrastructure costs being allocated to a smaller quantity of airplanes, all of which could reduce our profitability. The introduction of a new aircraft program and/or higher orders for our aircraft could lead to production rate increases in order to meet the delivery schedules. Failure to successfully implement any production rate changes could lead to extended delivery commitments, and depending on the length of delay in meeting delivery commitments, additional costs and customers rescheduling their deliveries or terminating their related contract with us.

The profitability of our commercial aircraft development programs depends upon a variety of factors, which are subject to unique risks.

We are currently engaged in the demanding flight testing and certification phases of program development on both the 787-8 and 747-8 Freighter aircraft. These airplanes have highly complex designs, utilize exotic materials and require extensive coordination and integration with supplier partners. As a result, our ability to deliver aircraft on time, meet contractual performance requirements and achieve program profitability is subject to significant risks.

Operational issues, including delays or defects in supplier components, the inability to efficiently and cost-effectively incorporate design changes into production aircraft, and aircraft performance issues, could result in additional expenses or lower program revenues. For example, in 2009 we determined that three of the six 787 flight test aircraft could not be sold due to the inordinate amount of work that would be required to prepare the aircraft for sale. As a result, we reclassified $2.7 billion from inventory to research and development expense. If we determine that one or more of the other flight test aircraft will not be sold, we may incur additional charges. In addition, flight testing and certification delays or supplier or other operational challenges that impact our ability to achieve our targeted production rates may result in aircraft delivery delays and higher costs to complete. For example, on January 18, 2011, we announced that the expected date of first delivery of our 787 Dreamliner had been moved to the third quarter of 2011 due to a combination of flight testing delays, supplier challenges and other issues common to commercial aircraft development programs. Our inability to deliver aircraft to our customers in a timely manner could result in order cancellations or other significant financial exposures, or could otherwise reduce the profitability of our Commercial Airplanes business. We continue to work with our customers and suppliers to assess the specific impact of schedule changes and otherwise to ensure that our aircraft meet customer expectations.

Looking beyond entry into service for the 787-8 and 747-8 Freighter, we continue to work toward improving production efficiencies and supplier performance, incorporating design changes into aircraft

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that have already been produced, improving aircraft performance, successfully implementing planned increases in production rates and introducing the 787-9 and 747-8 Intercontinental airplanes. For example, we are increasing production capacity in Everett and Charleston and working closely with our suppliers to support 787 production rate increases. If assembly line ramp-up efforts are delayed or if our suppliers cannot timely deliver components to us at the rates necessary to achieve our planned rate increases, we may be unable to meet delivery targets and the financial performance of one or more of our programs may suffer.

Management uses its best judgment to estimate the cost to perform the work, the price we will eventually be paid and the number of units to include in the initial accounting quantity. Changes to estimates of the program accounting quantity, customer and model mix, production costs and rates, learning curve, costs of derivative aircraft, customer negotiations/settlements, supplier claims and certification issues could affect margins or result in reach-forward losses. The cumulative impact of production challenges, schedule delays and customer and supplier impacts has resulted in a reach-forward loss on the 747 program and continues to place significant pressure on revenues, costs and the profitability of the 787 program.

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

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

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

In 2010, 43% of our revenues were derived from U.S. government contracts. In addition to normal business risks, our contracts with the U.S. government are subject to unique risks, some of which are beyond our control.

The funding of U.S. government programs is subject to congressional appropriations. Many of the U.S. government programs in which we participate may last several years; however, these programs are normally funded annually. Changes in military strategy and priorities may affect our future procurement opportunities and existing programs. Long-term government contracts and related orders are subject to cancellation, delay or restructure, if appropriations for subsequent performance periods are not made. The termination or reduction of funding for existing or new U.S. government programs could result in a material adverse effect on our earnings, cash flow and financial position.

The U.S. government may modify, curtail or terminate our contracts. The U.S. government may modify, curtail or terminate its contracts and subcontracts with us, without prior notice and at its convenience upon payment for work done and commitments made at the time of termination. Modification, curtailment or termination of one or more of our major programs or contracts could have a material adverse effect on our results of operations and financial condition.

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

Our business is subject to potential U.S. government inquiries and investigations. We are sometimes subject to certain U.S. government inquiries and investigations due to our participation in government contracts. Any such inquiry or investigation could potentially result in a material adverse effect on our results of operations and financial condition.

Our U.S. government business is also subject to specific procurement regulations and other requirements. These requirements, although customary in U.S. government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Failure to comply with these regulations and requirements could lead to suspension or debarment, or withholding of revenue and profit, for cause, from U.S. government contracting or subcontracting for a period of time and could have a negative effect on our reputation and ability to secure future U.S. government contracts.

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

Approximately 55% of BDS revenues are generated from fixed-price contracts. While firm fixed price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. If our estimated costs exceed our estimated price, we recognize reach-forward losses which can significantly affect our reported results. The long term nature of many of our contracts makes the process of estimating costs and revenues on fixed-price contracts inherently risky. Fixed-price contracts often contain price incentives and penalties tied to performance which can be difficult to estimate and have significant impacts on margins. In addition, some of our contracts have specific provisions relating to cost, schedule and performance.

Fixed-price development contracts are generally subject to more uncertainty than fixed-price production contracts. Many of these development programs have highly complex designs. If we fail to meet the terms specified in those contracts, our sales price could be reduced. As technical or quality issues arise, we may experience schedule delays and higher costs to complete, which would adversely affect our financial condition. Examples of significant BDS fixed-price development contracts include AEW&C, KC-767 International Tanker, P-8I and commercial and military satellites.

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

Approximately 45% of BDS revenues are generated from cost-type contracting arrangements. Some of these are development programs that have complex design and technical challenges. These cost-type programs typically have award or incentive fees that are subject to uncertainty and may be earned over extended periods. In these cases the associated financial risks are primarily in lower profit rates or program cancellation if cost, schedule or technical performance issues arise. Programs whose contracts are primarily cost-type include GMD, BCTM, P-8A Poseidon, Proprietary programs, JTRS, FAB-T and the EA-18G Growler.

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

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

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

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

Under program accounting, inventoriable production costs (including overhead), program tooling costs and routine warranty costs are accumulated and charged as cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts limited by the ability to make reasonably dependable estimates. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced and (c) the units expected sales prices, production costs, program tooling and routine warranty costs for the total program. Several factors determine accounting quantity, including firm orders, letters of intent from prospective customers and market studies. Such estimates are reconsidered throughout the life of our programs. Changes in underlying assumptions, supplier performance, circumstances or estimates concerning the selection of the accounting quantity or changes in market conditions, along with a failure to realize predicted costs, may adversely affect future financial performance.

Because of the significance of the judgments and estimation processes described above, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future period financial performance. For additional information on our accounting policies for recognizing sales and profits, see our discussion under Management s Discussion and Analysis Critical Accounting Policies Contract Accounting/Program Accounting on pages 42 - 44 and Note 1 to our Consolidated Financial Statements on pages 56 - 57 of this Form 10-K.

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

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

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

In 2010, sales to non-U.S. customers accounted for 41% of our revenues. We expect that non-U.S. sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

- changes in regulatory requirements;
- domestic and international government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation or participation requirements;
- fluctuations in international currency exchange rates;
- volatility in international political and economic environments and changes in non-U.S. national priorities and budgets, which can lead to delays or fluctuations in orders;
- the complexity and necessity of using non-U.S. representatives and consultants;
- the uncertainty of the ability of non-U.S. customers to finance purchases;
- uncertainties and restrictions concerning the availability of funding credit or guarantees;
- imposition of taxes, export controls, tariffs, embargoes and other trade restrictions;
- the difficulty of management and operation of an enterprise spread over various countries;
- compliance with a variety of international laws, as well as U.S. laws affecting the activities of U.S. companies abroad; and
- economic and geopolitical developments and conditions.

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

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

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

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

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

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

We depend, in part, upon the issuance of debt to fund our operations and contractual commitments. If we were called upon to fund all outstanding financing commitments, our market liquidity may not be sufficient. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include disruptions or declines in the global capital markets and/or a decline in our financial performance or outlook or credit ratings. The occurrence of any or all of these events may adversely affect our ability to fund our operations and contractual or financing commitments.

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

As part of our business strategy, we may merge with or acquire businesses, form joint ventures/strategic alliances and divest operations. Whether we realize the anticipated benefits from these transactions depends, in part, upon the integration between the businesses involved, the performance of the underlying products, capabilities or technologies and the management of the transacted operations. Accordingly, our financial results could be adversely affected from unanticipated performance issues, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance and indemnifications. Consolidations of joint ventures could also impact our results of operations or financial position. While we believe that we have established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful. Divestitures may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Nonperformance by those divested businesses could affect our future financial results.

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

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

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

Our business may be impacted by disruptions including threats to physical security, information technology attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Any of these disruptions could affect our internal operations or services provided to customers, and could impact our sales, increase our expenses or adversely affect our reputation or our stock price.

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

Approximately 57,400 employees, which constitute 36% of our total workforce, are union represented as of December 31, 2010. We experienced a work stoppage in 2008 when a labor strike halted commercial aircraft and certain BMA program production and we may experience additional work stoppages in the future, which could adversely affect our business. We cannot predict how stable our relationships, currently with 14 different U.S. labor organizations and 7 different non-U.S. labor organizations, will be or whether we will be able to meet the unions requirements without impacting our financial condition. The unions may also limit our flexibility in dealing with our workforce. Union actions at suppliers can also affect us. Work stoppages and instability in our union relationships could delay the production and/or development of our products, which could strain relationships with customers and cause a loss of revenues which would adversely affect our operations.

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

Our earnings may be positively or negatively impacted by the amount of income or expense we record for our pension and other postretirement benefit plans. Generally Accepted Accounting Principles in the United States of America (GAAP) require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions relating to financial market and other economic conditions. Changes in key economic indicators can change the assumptions. The most significant year-end assumptions used to estimate pension or other postretirement income or expense for the following year are the discount rate, the expected long-term rate of return on plan assets and expected future medical inflation. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to Shareholders equity. For a discussion regarding how our financial statements can be affected by pension and other postretirement plan accounting policies, see Management s Discussion and Analysis Critical Accounting Policies Postretirement Plans on pages 46 47 of this Form 10-K. Although GAAP expense and pension or other postretirement contributions are not directly related, the key economic factors that affect GAAP expense would also likely affect the amount of cash or common stock we would contribute to the pension or other postretirement plans. Potential pension contributions include both mandatory amounts required under federal law Employee Retirement Income Security Act (ERISA) and discretionary contributions to improve the plans funded status.

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

We are subject to various federal, state, local and non-U.S. laws and regulations related to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if we were to violate or become liable under environmental laws or regulations. In some cases, we may be subject to such costs due to environmental impacts attributable to our current or past manufacturing operations or the operations of companies we have acquired. In other cases, we may become subject to such costs due to an indemnification agreement between us and a third party relating to such environmental liabilities. In addition, new laws and regulations, more stringent enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new remediation requirements could result in additional costs. For additional information relating to environmental contingencies, see Note 11 to our Consolidated Financial Statements.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

We occupied approximately 85 million square feet of floor space on December 31, 2010 for manufacturing, warehousing, engineering, administration and other productive uses, of which approximately 96% was located in the United States.

The following table provides a summary of the floor space by business as of December 31, 2010:

(Square feet in thousands)	Owned	Leased	Government Owned*	Total
Commercial Airplanes	35,460	4,955		40,415
Boeing Defense, Space & Security	30,158	9,275	159	39,592
Other**	3,957	740		4,697
Total	69,575	14,970	159	84,704

* Excludes rent-free space furnished by U.S. government landlord of 772 square feet.

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

At December 31, 2010, our segments occupied facilities at the following major locations that occupied in excess of 74 million square feet of floor space:

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

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

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

Item 3. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 20 to our Consolidated Financial Statements, which is hereby incorporated by reference.

Item 4. Removed and Reserved

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market for our common stock is the New York Stock Exchange where it trades under the symbol BA. The number of holders of common stock as of February 1, 2011, was approximately 212,290. Additional information required by this item is incorporated by reference from Note 22 to our Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended December 31, 2010 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs[2]
10/1/2010 thru 10/31/2010	29,776	$ 67.35		$ 3,610
11/1/2010 thru 11/30/2010	5,666	70.12		3,610
12/1/2010 thru 12/31/2010	16,894	69.08		3,610
Total	52,336	$ 68.21		

(1) We purchased an aggregate of 52,061 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock during the period. In addition, we purchased an aggregate of 275 shares in swap transactions.

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

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Item 6. Selected Financial Data

Five-Year Summary (Unaudited)

(Dollars in millions, except per share data)	**2010**	2009	2008	2007	2006
Operations					
Revenues:					
Commercial Airplanes	**$ 31,834**	$ 34,051	$ 28,263	$ 33,386	$ 28,465
Boeing Defense, Space & Security:(1)					
Boeing Military Aircraft	**14,238**	14,304	13,445	13,545	14,014
Network & Space Systems	**9,455**	10,877	11,346	11,481	11,772
Global Services & Support	**8,250**	8,480	7,256	7,026	6,625
Total Boeing Defense, Space & Security	**31,943**	33,661	32,047	32,052	32,411
Boeing Capital Corporation	**639**	660	703	815	1,025
Other segment	**138**	165	567	308	327
Unallocated items and eliminations	**(248)**	(256)	(671)	(174)	(698)
Total revenues	**$ 64,306**	$ 68,281	$ 60,909	$ 66,387	$ 61,530
General and administrative expense	**3,644**	3,364	3,084	3,531	4,171
Research and development expense	**4,121**	6,506	3,768	3,850	3,257
Other income/(loss), net	**52**	(26)	247	484	420
Net earnings from continuing operations	**$ 3,311**	$ 1,335	$ 2,654	$ 4,058	$ 2,206
Net (loss)/gain on disposal of discontinued operations, net of tax	**(4)**	(23)	18	16	9
Net earnings	**$ 3,307**	$ 1,312	$ 2,672	$ 4,074	$ 2,215
Basic earnings per share from continuing operations	**4.50**	1.89	3.68	5.36	2.88
Diluted earnings per share from continuing operations	**4.46**	1.87	3.65	5.26	2.84
Cash dividends declared	**$ 1,245**	$ 1,233	$ 1,187	$ 1,129	$ 991
Per share	**1.68**	1.68	1.62	1.45	1.25
Additions to Property, plant and equipment	**1,125**	1,186	1,674	1,731	1,681
Depreciation of Property, plant and equipment	**1,096**	1,066	1,013	978	1,058
Employee salaries and wages	**15,709**	15,424	15,559	14,852	15,871
Year-end workforce	**160,500**	157,100	162,200	159,300	154,000
Financial position at December 31					
Total assets	**$ 68,565**	$ 62,053	$ 53,779	$ 58,986	$ 51,794
Working capital	**5,177**	2,392	(4,809)	(4,184)	(6,665)
Property, plant and equipment, net	**8,931**	8,784	8,762	8,265	7,675
Cash and cash equivalents	**5,359**	9,215	3,268	7,042	6,118
Short-term and other investments	**5,158**	2,008	11	2,266	268
Total debt	**12,421**	12,924	7,512	8,217	9,538
Customer financing assets	**4,680**	5,834	6,282	7,105	8,890
Shareholders equity(2)	**2,766**	2,128	(1,294)	9,004	4,739
Per share	**3.76**	2.93	(1.85)	12.22	6.25
Common shares outstanding (in millions)(3)	**735.3**	726.3	698.1	736.7	757.8
Contractual Backlog:					
Commercial Airplanes	**$ 255,591**	$ 250,476	$ 278,575	$ 255,176	$ 174,276
Boeing Defense, Space & Security:(1)					
Boeing Military Aircraft	**25,094**	26,354	25,802	23,027	24,689
Network & Space Systems	**9,586**	7,746	8,868	9,207	7,786
Global Services & Support	**13,684**	11,924	10,615	9,554	9,812
Total Boeing Defense, Space & Security	**48,364**	46,024	45,285	41,788	42,287
Total contractual backlog	**$ 303,955**	$ 296,500	$ 323,860	$ 296,964	$ 216,563

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

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

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

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

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Results of Operations and Financial Condition

Overview

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

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

Consolidated Results of Operations

Revenues

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Commercial Airplanes	**$ 31,834**	$ 34,051	$ 28,263
Boeing Defense, Space & Security	**31,943**	33,661	32,047
Boeing Capital Corporation	**639**	660	703
Other segment	**138**	165	567
Unallocated items and eliminations	**(248)**	(256)	(671)
Total	**$ 64,306**	$ 68,281	$ 60,909

Revenues in 2010 decreased by $3,975 million or 6% compared with 2009. Commercial Airplanes revenues decreased by $2,217 million due to lower 777 deliveries primarily resulting from a production rate change from 7 to 5 per month beginning in June 2010 and no deliveries on the 747 program due to the transition from the 747-400 to the 747-8. These were partially offset by increases in commercial aviation services business. BDS revenues decreased by $1,718 million primarily due to lower revenues in the Network & Space Systems (N&SS) segment.

Revenues in 2009 increased by $7,372 million compared with 2008 due to higher revenues in Commercial Airplanes and BDS. Commercial Airplanes revenues increased by $5,788 million, primarily due to higher commercial airplane deliveries in 2009. Deliveries in 2008 were lower as a result of a

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labor strike in 2008. Increases were partially offset by decreases in commercial aviation services and intercompany revenues. BDS revenues increased by $1,614 million, primarily due to higher revenues in Global Services & Support (GS&S) and Boeing Military Aircraft (BMA), partially offset by lower revenues in N&SS. BCC revenues decreased by $43 million during the year primarily due to a decrease in the customer financing portfolio. Other segment revenues decreased by $402 million partly due to higher revenues in 2008 from the sale of four C-17 aircraft held under operating lease. Lower Unallocated items and eliminations improved revenues by $415 million primarily due to lower P-8A Poseidon intercompany revenues recognized by Commercial Airplanes in 2009 compared with 2008.

Earnings From Operations

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

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Commercial Airplanes	**$ 3,006**	$ (583)	$ 1,186
Boeing Defense, Space & Security	**2,875**	3,299	3,232
Boeing Capital Corporation	**152**	126	162
Other segment	**(327)**	(152)	(307)
Unallocated items and eliminations	**(735)**	(594)	(323)
Total	**$ 4,971**	$ 2,096	$ 3,950

Operating earnings in 2010 increased by $2,875 million compared with 2009. Commercial Airplanes earnings increased by $3,589 million, primarily due to $2,693 million of costs related to the first three 787 flight test aircraft included in research and development expense in 2009 and the 2009 reach-forward losses on the 747 program of $1,352 million. BDS earnings decreased by $424 million compared with 2009 due to lower revenues and margins in the BMA segment and lower revenues in the N&SS segment. Other segment earnings decreased by $175 million primarily due to $119 million in intercompany guarantees related to aircraft impairment charges and reduced aircraft collateral values.

Operating earnings in 2009 decreased by $1,854 million compared with 2008. Commercial Airplanes earnings decreased by $1,769 million primarily due to $2,693 million of costs related to the first three 787 flight test aircraft included in research and development expense as a result of our determination in August 2009 that these aircraft could not be sold. The earnings decrease is also attributable to $1,352 million in reach-forward losses on the 747 program in 2009, compared with $667 million in 2008. Lower commercial aviation services and intercompany earnings also contributed to lower 2009 earnings. These decreases were partially offset by higher commercial airplane deliveries in 2009 compared with 2008. BDS earnings increased by $67 million compared with 2008 primarily due to higher earnings in the BMA segment partially offset by lower earnings in the N&SS segment. Other segment losses decreased by $155 million primarily due to recognition of pre-tax expense of $82 million in the prior year to increase the allowance for losses on customer financing receivables and lower environmental remediation charges compared with the prior year. Unallocated items and eliminations in 2009 reduced earnings by $271 million compared with 2008, which is further explained in the table below.

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

(Dollars in millions) Years ended December 31,	**2010**	2009	2008
Share-based plans	**$ (136)**	$ (189)	$ (149)
Deferred compensation	**(112)**	(158)	223
Pension	**54**	110	(208)
Postretirement	**(59)**	(93)	(79)
Other unallocated items and eliminations	**(482)**	(264)	(110)
Total	**$ (735)**	$ (594)	$ (323)

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

Deferred compensation expense decreased by $46 million in 2010 and increased by $381 million in 2009. The year over year changes in deferred compensation expense are primarily driven by changes in our stock price and broad stock market conditions.

Other unallocated items and eliminations expense increased by $218 million in 2010 primarily due to timing of intercompany expense allocations and elimination of profit on intercompany items as well as a $55 million charitable contribution. The 2009 increase of $154 million was primarily due to timing of intercompany expense allocations, elimination of profit on intercompany items and a more favorable insurance adjustment.

Unallocated pension and other postretirement expense represents the difference between costs recognized under Generally Accepted Accounting Principles in the United States of America (GAAP) in the consolidated financial statements and federal cost accounting standards required to be utilized by our business segments for U.S. government contracting purposes. We recorded net periodic benefit cost related to pensions and other postretirement benefits of $1,864 million, $1,816 million and $1,132 million in 2010, 2009 and 2008, respectively. Not all net periodic benefit cost is recognized in earnings in the period incurred because it is allocated to production as product costs and a portion remains in inventory at the end of the reporting period. A portion of pension and other postretirement expense is recorded in the business segments and the remainder is included in unallocated pension and other postretirement expense. Earnings from operations included the following amounts allocated to business segments and Other unallocated items and eliminations.

(Dollars in millions)	Pension			Other Postretirement Benefits		
Years ended December 31,	**2010**	2009	2008	**2010**	2009	2008
Allocated to business segments	**$ (1,155)**	$ (989)	$ (488)	**$ (421)**	$ (522)	$ (428)
Other unallocated items and eliminations	**54**	110	(208)	**(59)**	(93)	(79)
Total	**$ (1,101)**	$ (879)	$ (696)	**$ (480)**	$ (615)	$ (507)

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Other Earnings Items

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Earnings from operations	**$ 4,971**	$ 2,096	$ 3,950
Other income/(expense), net	**52**	(26)	247
Interest and debt expense	**(516)**	(339)	(202)
Earnings before income taxes	**4,507**	1,731	3,995
Income tax expense	**(1,196)**	(396)	(1,341)
Net earnings from continuing operations	**$ 3,311**	$ 1,335	$ 2,654

Other income increased by $78 million in 2010 primarily due to investment income on higher cash and investment balances throughout 2010. The decrease in 2009 of $273 million was driven by lower investment income due to both lower interest rates and investment balances. Interest and debt expense increased by $177 million and $137 million in 2010 and 2009 due to debt issued in 2009.

Our effective income tax rate was 26.5%, 22.9% and 33.6% for the years ended December 31, 2010, 2009 and 2008, respectively. Our effective tax rate was higher in 2010, compared with 2009, primarily because pre-tax book income in 2010 was higher than in 2009 and because of an income tax charge of $150 million recorded during the first quarter of 2010 as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010. This was partially offset by a tax benefit of $371 million recorded during the fourth quarter of 2010 as a result of settling the 1998-2003 federal audit. Our effective tax rate was lower in 2009, compared with 2008, primarily because tax credits, such as research and development credits, represented a higher proportion of earnings before taxes due to the year-over-year reduction in earnings. For additional discussion related to Income Taxes, see Note 5 to our Consolidated Financial Statements.

Backlog

Our backlog at December 31 was as follows:

(Dollars in millions)	**2010**	2009	2008
Contractual Backlog:			
Commercial Airplanes	**$ 255,591**	$ 250,476	$ 278,575
Boeing Defense, Space & Security:			
Boeing Military Aircraft	**25,094**	26,354	25,802
Network & Space Systems	**9,586**	7,746	8,868
Global Services & Support	**13,684**	11,924	10,615
Total Boeing Defense, Space & Security	**48,364**	46,024	45,285
Total contractual backlog	**$ 303,955**	$ 296,500	$ 323,860
Unobligated backlog	**$ 16,871**	$ 19,058	$ 28,066

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The increase in contractual backlog during 2010 was due to orders in excess of deliveries and changes in projected revenue escalation, partially reduced by cancellations of orders. The decrease in backlog during 2009 was due to deliveries in excess of orders, changes in projected revenue escalation and cancellations of orders.

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Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The decrease in unobligated backlog during 2010 is due to decreases at BDS of $1,993 million compared with 2009 primarily due to funding of existing multi-year contracts including the V-22, Brigade Combat Team Modernization (BCTM) and Chinook programs, partially offset by multi-year procurement contract awards on the F/A-18 and International Space Station programs. The decrease in unobligated backlog during 2009 is primarily due to decreases at BDS of $8,904 million compared with 2008 partly due to a partial termination for convenience by the U.S. Army of the BCTM System Development and Demonstration contract relating to Manned Ground Vehicles and associated systems and equipment. Approved funding of existing multi-year contracts including the BCTM, V-22, Chinook, Proprietary and GMD programs also reduced unobligated backlog.

Segment Results of Operations and Financial Condition

Commercial Airplanes

Business Environment and Trends

Airline Industry Environment Global passenger traffic exceeded initial expectations in 2010 growing an estimated 8% for the year and showing growth over prior 2008 peak levels. Significant variation existed between regions and airline business models with emerging markets and low cost carriers leading recovery and growth into 2011. Air cargo traffic also rebounded in 2010 after two years of contraction. Led by strong growth in Asian exports, air cargo traffic recovered to peak 2007 levels and is poised to resume growth in 2011.

Airlines cut capacity in 2009 to match the demand environment which allowed them to boost yields as demand recovered in 2010. Airlines have also pursued new revenue sources by expanding alliances and building ancillary revenue streams. In addition, airlines continued to focus on cutting costs and pursued consolidation opportunities, particularly in mature markets, to improve market positioning. These airline tactics, combined with improving demand and relatively stable fuel prices, have driven a strong turnaround in airline industry profitability. Airlines are forecast to earn $15 billion in 2010 following a $10 billion net loss in 2009. The 2011 outlook is for continued profitability which should allow airlines to rebuild balance sheets that suffered from fuel price spikes and recession in 2008-2009.

The long-term outlook for the industry remains positive due to the fundamental drivers of air travel growth: economic growth and the increasing propensity to travel due to increased trade, globalization and improved airline services driven by liberalization of air traffic rights between countries. Our 20-year forecast is for a long-term average growth rate of 5% per year for passenger and cargo traffic based on a projected average annual worldwide real economic growth rate of 3%. Based on long-term global economic growth projections, and factoring in increased utilization of the worldwide airplane fleet and requirements to replace older airplanes, we project a $3.6 trillion market for 30,900 new airplanes over the next 20 years.

The industry remains vulnerable to near-term exogenous developments including fuel price spikes, disease outbreaks (such as avian or H1N1 flu), terrorism, conflicts and increased global environmental regulations.

Industry Competitiveness The commercial jet aircraft market and the airline industry remain extremely competitive. We expect the existing long-term downward trend in passenger revenue yields worldwide (measured in real terms) to continue into the foreseeable future. Market liberalization in Europe and Asia has enabled low-cost airlines to continue gaining market share. These airlines have increased the downward pressure on airfares. This results in continued cost pressures for all airlines and price pressure on our products. Major productivity gains are essential to ensure a favorable market position at acceptable profit margins.

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Continued access to global markets remains vital to our ability to fully realize our sales potential and long-term investment returns. Approximately 10% of Commercial Airplanes contractual backlog in dollar terms is with U.S. airlines.

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

Worldwide, airplane sales are generally conducted in U.S. dollars. Fluctuating exchange rates affect the profit potential of our major competitors, all of whom have significant costs in other currencies. Changes in value of the U.S. dollar relative to their local currencies as experienced in 2010 impacted competitors revenues and profits. Competitors routinely respond to relatively weaker dollars by aggressively reducing costs and increasing productivity, thereby improving their longer-term competitive posture. Airbus has announced such initiatives targeting overhead cost savings, a reduction in its development cycle and a significant increase in overall productivity through 2012. If the U.S. dollar strengthens again, Airbus can use the improved efficiency to fund product development, gain market share through pricing and/or improve earnings.

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

Operating Results

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 31,834**	$ 34,051	$ 28,263
% of Total company revenues	**50%**	50%	46%
Earnings/(loss) from operations	**$ 3,006**	$ (583)	$ 1,186
Operating margins	**9.4%**	-1.7%	4.2%
Research and development	**$ 2,975**	$ 5,383	$ 2,838
Contractual backlog	**$ 255,591**	$ 250,476	$ 278,575

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Revenues

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

(Dollars in millions)	2010 vs. 2009	2009 vs. 2008
New airplane sales	$ (2,733)	$ 6,129
Commercial aviation services business	569	(308)
Other	(53)	(33)
Total	$ (2,217)	$ 5,788

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

The increase in revenue of $5,788 million in 2009 from 2008 was primarily attributable to higher new airplane deliveries partially offset by lower intercompany revenues. 2008 revenues were negatively impacted by a 2008 IAM strike. The decrease in revenues from commercial aviation services business was driven by economic conditions.

Commercial jet aircraft deliveries as of December 31 were as follows:

	737	**747**	**767**	**777**	**Total**
2010					
Cumulative Deliveries	**3,504**	**1,418**	**994**	**910**	
Deliveries	**376**[(1)]		**12**	**74**	**462**
2009					
Cumulative Deliveries	3,128	1,418	982	836	
Deliveries	372[(1)]	8	13	88	481
2008					
Cumulative Deliveries	2,756	1,410	969	748	
Deliveries	290[(1)]	14	10[(1)]	61	375

(1) Includes intercompany deliveries of 5 737 aircraft in 2010, 5 737 aircraft in 2009 and 2 767 aircraft and 2 737 aircraft in 2008.

Earnings From Operations

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

Earnings from operations for 2009 decreased by $1,769 million compared with 2008, primarily due to the reclassification from inventory to research and development expense of the three 787 flight test aircraft previously recorded as inventory, partially offset by a $148 million decrease in other research and development expense. The decrease in earnings is also attributable to $1,352 million in reach-forward losses on the 747 program in 2009, compared with $685 million in 2008. Lower commercial aviation services revenues and margins reduced earnings by $245 million. Higher infrastructure cost allocations related to the 787 and 747-8 schedule delays announced in 2008 and 2009 and infrastructure costs incurred during the 2008 IAM strike reduced earnings by $199 million. Increased period and other costs reduced earnings by $47 million. These decreases were partially offset by increased earnings of $1,934 million related to new airplane deliveries.

Backlog Firm backlog represents orders for products and services where no contingencies remain before Boeing and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the customers receiving approval from their Board of Directors, shareholders or government and completing financing arrangements. All such contingencies must be satisfied or have expired prior to recording a new firm order even if satisfying such conditions is highly certain. Firm orders exclude options. A number of our customers may have contractual remedies that may be implicated by program delays. We continue to address customer claims and requests for other contractual relief as they arise. However, once orders are included in firm backlog, orders remain in backlog until canceled or fulfilled, although the value of orders is adjusted as changes to price and schedule are agreed to with customers.

The increase in contractual backlog during 2010 was due to orders in excess of deliveries and changes in projected revenue escalation, partially reduced by cancellations of orders. The decrease in backlog during 2009 was due to deliveries in excess of orders, changes in projected revenue escalation and cancellations of orders.

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

Commercial aircraft production costs include a significant amount of infrastructure costs, a portion of which does not vary with production rates. As the amount of time needed to produce the accounting quantity increases, the average cost of the accounting quantity also increases as these infrastructure costs are included in the total cost estimates. This has the effect of decreasing the gross margin and related earnings provided other factors do not change.

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

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

	Program				
	737	**747**	**767**	**777**	**787**
2010					
Program accounting quantities	**5,000**	**1,524**	**1,048**	**1,150**	*****
Undelivered units under firm orders	**2,186**	**107**	**50**	**253**	**847**
Cumulative firm orders	**5,690**	**1,525**	**1,044**	**1,163**	**847**
2009					
Program accounting quantities	4,600	1,499	1,035	1,100	*
Undelivered units under firm orders	2,076	108	59	281	851
Cumulative firm orders	5,204	1,526	1,041	1,117	851
2008					
Program accounting quantities	4,200	1,499	1,023	1,050	*
Undelivered units under firm orders	2,270	114	70	350	910
Cumulative firm orders	5,026	1,524	1,039	1,098	910

* A final determination of the initial accounting quantity for the 787 program will be made in the quarter of first airplane delivery, targeted for the third quarter of 2011.

737 Program The accounting quantity for the 737 program increased by 400 units during 2010. During 2010, we announced plans to increase monthly production of the 737 from 31.5 to 35 airplanes per month beginning in the first quarter of 2012 and a further increase to 38 airplanes per month beginning in the second quarter of 2013.

747 Program The accounting quantity for the 747 program increased by 25 units during 2010. During 2009 and 2008, we recorded charges of $1,352 million and $685 million to recognize reach-forward losses on the 747 program reflecting higher than anticipated costs, a reduction in delivery price increases associated with escalation and difficult cargo market conditions which caused us to defer a planned production rate increase for 747-8. First flight of the 747-8 Freighter occurred on February 8, 2010. A fourth aircraft was added to the flight test program in July 2010 to improve flight test efficiency. On September 30, 2010, we announced that the expected first delivery of the 747-8 Freighter would move to the middle of 2011 from the fourth quarter of 2010 and a fifth airplane would be added to the flight test fleet to support the new schedule. The new delivery schedule followed an assessment of the expected cumulative impact of flight test discoveries, which include a low frequency vibration in certain flight conditions and an underperforming aileron actuator. While neither issue required structural changes to the airplane, they led to disruptions to certification testing, which the program was unable to offset within the prior schedule. We are currently producing 747-8 airplanes and until completion of our flight test program, there is risk that additional items may be identified that require further modifications or other changes to those aircraft we have produced. On March 19, 2010, we announced that we will accelerate, from mid-2013 to mid-2012, a planned production rate increase from 1.5 to 2 airplanes per month. Certification and first delivery of the Intercontinental passenger derivative is expected in the fourth quarter of 2011. Schedule and other risks inherent in the demanding flight test and certification phases of program development remain.

767 Program The accounting quantity for the 767 program increased by 13 units during 2010.

777 Program The accounting quantity for the 777 program increased by 50 units during 2010. In April 2009, we announced that monthly production of the 777 will decline from 7 to 5 airplanes per month

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beginning in June 2010. In March 2010, we announced that we will accelerate by approximately six months, from early 2012 to mid-2011, a planned production rate increase to 7 airplanes per month. In December 2010, we announced that monthly production of the 777 will increase from 7 to 8.3 airplanes per month in the first quarter 2013.

787 Program First flight of the 787 occurred on December 15, 2009 and flight testing for certification continued during 2010. Flight testing involves six flight test aircraft and a limited amount of testing on two production-configured airplanes prior to first delivery. On August 27, 2010, we announced that the expected date of first delivery of the 787 had been moved to mid-first quarter 2011 from the fourth quarter of 2010. This schedule revision followed an assessment of the cumulative impact of a number of issues, including supplier workmanship issues related to the horizontal stabilizer, instrumentation delays and the expected availability date of an engine needed to support the final phases of flight test. On November 9, 2010, a flight test aircraft lost primary electrical power as a result of an onboard fire. Back-up systems functioned as expected allowing the crew to complete a safe landing. Flight testing was suspended pending investigation. On November 24, 2010, we announced minor design changes to power distribution panels and updates to systems software resulting from the investigation. On December 23, 2010, we resumed Boeing flight test activities and on January 17, 2011 resumed certification testing. On January 18, 2011, we announced that the expected date of first delivery had been moved to the third quarter of 2011 due to the flight testing and certification delays.

A number of engineering and other design changes have been identified in conjunction with the flight test program that are being incorporated into our production system and on aircraft already completed. During 2010, we continued to produce 787 airplanes and until completion of our flight test program, there is risk that additional items will be identified that require further modifications or other changes to those aircraft we have produced.

We continue to monitor and address challenges associated with assembly of initial airplanes including management of our extended global supply chain, incorporation of design changes into aircraft in various stages of assembly, completion and integration of traveled work as well as weight and systems integration. For example, during the second quarter of 2010 we delayed some 787 component deliveries to reduce out of sequence work moving into final assembly at our Everett factory and improve supply chain efficiency.

We continue to work toward planned increases in 787 production rates as well as the timely introduction of the 787-9 derivative. Such efforts include the construction of a second assembly line in North Charleston, South Carolina and establishing transitional surge capacity at our Everett, Washington location. On July 1, 2010, we completed firm configuration of the 787-9 airplane with first delivery scheduled for late 2013.

We continue to work with our customers and suppliers to assess the specific impacts of schedule changes, including delivery delays and supplier assertions. Efforts continue to ensure we remain focused on satisfying customer mission and performance needs in light of the anticipated weight of their respective aircraft. A number of our customers have contractual remedies for schedule delays and/or performance. We continue to address customer and supplier claims and requests for other contractual relief as brought forth.

During 2009, we concluded that the first three flight-test 787 aircraft could not be sold as previously anticipated due to the inordinate amount of rework and unique and extensive modifications made to those aircraft. As a result, costs associated with these aircraft were included in research and development expense. We believe that the other three 787 flight test aircraft are commercially saleable and we continue to include costs related to those aircraft in program inventory at December 31, 2010. If we determine that one or more of the other flight test aircraft cannot be sold, we may incur additional charges.

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Our current assessment is that the program is not in a reach-forward loss position, however the cumulative impacts of the production challenges, schedule delays and customer and supplier impacts have created significant pressure on program profitability and we expect to record zero margin on our initial deliveries. We continue to implement mitigation plans and cost-reduction efforts to address this pressure.

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

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

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

Our Research and development expense increased by $2,545 million in 2009. This was due to the 2009 reclassification of production costs related to the three 787 flight test aircraft and $50 million of lower supplier development cost sharing payments, partially offset by a $198 million decrease of other research and development expense.

Additional Considerations

The 787 and 747-8 programs highlight the risks inherent in new airplane programs and new derivative airplanes, particularly as both the 747-8 Freighter and the 787-8 continue the demanding flight test and certification phases of program development. Development also continues on the 787-9 and 747-8 Intercontinental. Costs related to development of new programs and derivative airplanes are expensed as incurred. Costs to produce new aircraft are included in inventory and accounted for using program accounting. Airplane programs have risk for reach-forward losses if our estimated production costs exceed our estimated program revenues for the accounting quantity. Generally commercial airplanes are sold on a firm fixed-price basis with an indexed price escalation clause and are often sold several years before scheduled delivery. Each customer purchase agreement contains an escalation clause to account for the effects of economic fluctuations over the period of time from airplane sale to airplane delivery. A price escalation formula based on pre-defined factors is used to determine the final price of the airplane at the time of customer delivery. While firm fixed-price contracts allow us to benefit from cost savings, they also expose us to the risk of cost overruns. Many new airplanes and derivatives have highly complex designs, utilize exotic materials and require extensive coordination and integration with supplier partners. As technical or quality issues arise, such as issues experienced on the 787 and 747-8 programs, we may experience schedule delays and higher costs to complete new programs and derivative aircraft. Additionally, price escalation factors may also impact margins by reducing the estimated price of airplanes delivered in the future. There are other factors that could also result in lower margins or a material charge if a program has or is determined to have reach-forward losses. These include: changes to the program accounting quantity, customer and model mix, production costs and rates, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for derivative airplanes and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.

Boeing Defense, Space & Security

Business Environment and Trends

U.S. Defense Environment Overview The U.S. continues to balance funding priorities to plan for the broadest possible range of operations that include homeland defense, natural disasters, stabilization efforts, counterinsurgency and counterterrorism operations, or nation state aggressors with growing sophistication and military means. The U.S. Department of Defense (U.S. DoD) faces the simultaneous requirements to execute the national security policy, recapitalize important capabilities, and transform the force to meet the changing national security threat environment as articulated in the 2010 National Security Strategy and Quadrennial Defense Review. These actions must be carried out against a backdrop of significant competing national priorities including the economic crisis, the national debt and healthcare reform. As a result, the traditional roles of defense and security are converging into a single set of customer needs. We anticipate that the national security environment will remain dynamic and challenging well into this decade trending with the threat environment.

U.S. government policies impacting the defense environment include: efficiency initiatives to save at least $100 billion through 2016, defense acquisition reform, increased insourcing, concerns over the decline of the U.S. industrial base, a shift in emphasis towards more affordable solutions, and emphasis on increasing diplomatic efforts to expand and strengthen our alliances. In January 2011, the U.S. DoD announced its intention to further reduce its top-line base budget by $78 billion over the next five years.

Although the U.S. DoD budget has grown substantially over the past decade, we expect the total budget growth rate to level off or even decline slightly over the next several years due to these shifting priorities and budget pressures. The fiscal year 2011 discretionary budget of $708 billion includes an Overseas Contingency Operations (OCO) budget of $159 billion. Procurement is expected to increase, while research and development accounts are expected to decrease due to growing requirements from operations and maintenance (O&M) and personnel costs tied to U.S. commitments overseas. However, this trend is partially offset by equipment recapitalization efforts and continued demand for systems development. The near-term forecast of the defense budget environment shows limited growth in the 2012 to 2016 period for investment efforts. Although opportunities may exist following complete U.S. troop draw-downs in Iraq in late 2011, they may be offset by sustained O&M requirements in Afghanistan. Early indications suggest that coalition forces will sustain operations in the Afghanistan Theater longer than initially anticipated. We continue to see pressure to reduce OCO requests that have been used to cover the ongoing costs of the wars.

It is unlikely that the U.S. DoD will be able to fully fund all programs of record already in development as well as new initiatives. This imbalance between future costs of programs and expected funding levels is not uncommon in the U.S. DoD and is routinely managed by internally adjusting priorities and schedules, restructuring programs, and lengthening production runs to meet the constraints of available funding and occasionally by cancellation of programs. We expect the U.S. DoD will respond to future budget constraints by focusing on affordability strategies from acquisition efficiencies and reforms and emphasizing utilization of commercial off-the-shelf solutions and network-enabled operations. These strategies will be enabled through persistent intelligence, surveillance, and reconnaissance (ISR), long-range strike, special operations, unmanned systems, cybersecurity, precision-guided kinetic and non-kinetic weapons, electronic warfare, as well as selected outsourcing of logistics and support activities to improve overall effectiveness while maintaining control over costs.

International Environment Overview The international market continues to be driven by rapidly evolving security challenges and countries need to modernize aging inventories. Western governments are pressured by new threats to security while at the same time dealing with constrained budgets. In Europe, global economic conditions are creating downward pressure on budget resources and austerity measures have been put in place to reduce defense spending in the near term.

The strongest opportunities for 2011 growth of the BDS portfolio will be in the Middle East and Asia-Pacific regions where modernization budgets remain relatively stable. With increasing needs and aging equipment, these regions have the financial strength necessary to make future defense purchases. Boeing's portfolio of defense, space and security solutions offers proven capability, predictable price, and near-term availability that are well matched to this challenging international environment.

Adjacent Market Environment Overview We are repositioning our business to expand our capabilities and accelerate growth in the following targeted adjacencies: Unmanned Systems; Cyber and Information Services; Security; Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR); and Logistics Command and Control (LogC2) and Energy Services.

We anticipate continued growth in unmanned systems as these products provide critical mission functions to the warfighter with a focus on affordability, persistence, and accuracy. The demand for defensive, offensive, and exploit operations in the emerging Cyber market provides unique growth opportunities as explicit needs are further defined by customers. Key growth areas in Security include aviation security, border security, maritime security and cybersecurity as the U.S. government looks to work more closely with state and local institutions. The dependence on time-critical information for intelligence-based operations has fueled the need for C4ISR technologies that locate, identify, and track elusive and ephemeral targets. We continue to find opportunity in the LogC2 market in areas including logistics operations, supply chain management, and logistics training and simulations. Lastly, as energy volatility increases and pressure is placed on the national grid infrastructure, we expect that the need for energy services such as energy management, infrastructure security, and scenario modeling will increase accordingly.

BDS Realignment

Effective January 1, 2010, 2009 and 2008, certain programs were realigned among BDS segments. Business segment data for all periods presented have been adjusted to reflect the realignment.

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Operating Results

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 31,943**	$ 33,661	$ 32,047
% of Total company revenues	**50%**	49%	53%
Earnings from operations	**$ 2,875**	$ 3,299	$ 3,232
Operating margins	**9.0%**	9.8%	10.1%
Research and development	**$ 1,136**	$ 1,101	$ 933
Contractual backlog	**$ 48,364**	$ 46,024	$ 45,285
Unobligated backlog	**$ 16,822**	$ 18,815	$ 27,719

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

Revenues BDS revenues decreased by $1,718 million in 2010 compared with 2009, due to lower revenues in all three segments, with the largest decrease in the N&SS segment. BDS revenues increased by $1,614 million in 2009 compared with 2008, due to higher revenues in GS&S and BMA, partially offset by decreases in N&SS.

Operating Earnings BDS operating earnings in 2010 decreased by $424 million compared with 2009 primarily due to lower margins in the BMA segment and lower revenues in the N&SS segment. BDS operating earnings in 2009 increased by $67 million compared with 2008 primarily due to higher earnings in the BMA segment, partially offset by lower earnings in the N&SS segment.

Backlog Total backlog is comprised of contractual backlog, which represents work we are on contract to perform for which we have received funding, and unobligated backlog, which represents work we are on contract to perform for which funding has not yet been authorized and appropriated. BDS total backlog increased by less than 1% in 2010, from $64,839 million to $65,186 million, primarily due to multi-year procurement contract awards on the F/A-18 and International Space Station programs, two commercial satellite contract awards, and the UK Future Logistics Information Services (FLIS) contract award, offset by current year deliveries and sales on multi-year contracts awarded in prior years. For further details on the changes between periods, refer to the discussions of the individual segments below.

Additional Considerations

Our business includes a variety of development programs which have complex design and technical challenges. Many of these programs have cost-type contracting arrangements. In these cases the associated financial risks are primarily in lower profit rates or program cancellation if milestones and technical progress are not accomplished. Examples of these programs include Family of Beyond Line-of-Sight Terminals, BCTM, GMD, Joint Tactical Radio System, P-8A Poseidon and Proprietary programs.

Some of our development programs are contracted on a fixed-price basis. Many of these programs have highly complex designs. As technical or quality issues arise, we may experience schedule delays

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and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues. Examples of our fixed-price development programs include Airborne Early Warning and Control (AEW&C), P-8I, KC-767 International Tanker, and commercial and military satellites.

Boeing Military Aircraft

Operating Results

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 14,238**	$ 14,304	$ 13,445
% of Total company revenues	**22%**	21%	22%
Earnings from operations	**$ 1,258**	$ 1,528	$ 1,294
Operating margins	**8.8%**	10.7%	9.6%
Research and development	**$ 589**	$ 582	$ 486
Contractual backlog	**$ 25,094**	$ 26,354	$ 25,802
Unobligated backlog	**$ 8,297**	$ 9,297	$ 10,035

Revenues BMA revenues decreased by less than 1% in 2010 and increased by 6% in 2009. Lower revenues in 2010 on the C-17, Apache and T-45 programs were nearly offset by higher Chinook, F/A-18 and AEW&C revenues. The increase of $859 million in 2009 was primarily due to higher revenues on the Apache, V-22, Chinook, F/A-18, and Proprietary programs, partly offset by lower revenues on the F-22 and several weapons programs.

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

Years ended December 31,	**2010**	2009	2008
F/A-18 Models	**50**	49	45
F-15E Eagle	**13**	13	14
C-17 Globemaster	**14**	16	16
AH-64 Apache	**13**	23	3
CH-47 Chinook	**20**	11	12
AEW&C	**4**		
KC-767 Tanker	**1**	2	2
T-45TS Goshawk		7	7
Total new-build production aircraft	**115**	121	99

Operating Earnings BMA earnings decreased by $270 million in 2010 primarily due to lower deliveries of C-17 aircraft and less favorable pricing and mix on the C-17 program. BMA operating earnings increased by $234 million in 2009 partly due to higher deliveries on several programs and volume, partially offset by a change in delivery mix. Operating earnings in both years were negatively impacted by charges recorded on the AEW&C and KC-767 International Tanker programs.

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Research and Development The BMA segment continues to focus research and development resources to leverage customer knowledge, technical expertise and system integration of manned and unmanned systems that provide innovative solutions to meet the warfighter s enduring needs. Research and development expense remained flat in 2010 but in 2009 increased by 20% over 2008 primarily due to increased prototyping activities which were partially offset by lower international tanker development costs. Research and development activities utilize our capabilities in architectures, system-of-systems integration and weapon systems technologies to develop solutions which are designed to better prepare us to meet customers needs in U.S. and international growth areas such as: military-commercial derivatives, rotorcraft, global strike, missiles and unmanned airborne systems, and surveillance and engagement systems. The products of our research and development support both new manned and unmanned systems as well as enhanced versions of existing fielded products. Investments support vertical integration of our product line in areas such as autonomous operation of unmanned systems, advanced sensors and electronic warfare. These efforts focus on increasing mission effectiveness, interoperability, reliability and reducing the cost of ownership.

Backlog BMA total backlog in 2010 decreased 6% from 2009, primarily due to deliveries and sales on multi-year contracts awarded in prior years partially offset by a multi-year contract award on the F/A-18 program. Total backlog in 2009 was virtually unchanged from 2008. Backlog increases due to 2009 orders for C-17, P-8I and Chinook aircraft were offset by revenues recognized on multi-year contracts received in prior years with the largest decrease in the F/A-18 program.

Additional Considerations

AEW&C The AEW&C development program, also known as Wedgetail in Australia, Peace Eagle in Turkey and Peace Eye in the Republic of Korea, consists of 737-700 aircraft outfitted with a variety of command and control and advanced radar systems, some of which have never been installed on an airplane before. Wedgetail includes six aircraft and Peace Eagle and Peace Eye include four aircraft each. During 2010, 2009 and 2008, we recorded charges increasing the reach-forward losses on the AEW&C programs in Australia and Turkey by $174 million, $133 million and $308 million, respectively. These charges reflect technical performance issues associated with the test program, delivery schedule delays, subsystem development issues, and additional time for integration testing. During 2010, four Wedgetail aircraft were delivered to Australia with initial customer acceptance. Final customer acceptance for all six Wedgetail aircraft is scheduled to be completed by the end of 2011. In January 2011, the Peace Eagle program began the formal test phase. These are advanced and complex fixed-price development programs involving technical challenges at the individual subsystem level and in the overall integration of these subsystems into a reliable and effective operational capability. We believe that the cost and revenue estimates incorporated in the financial statements are appropriate; however, the technical complexity of the programs creates financial risk as additional completion costs may be necessary or scheduled delivery dates could be delayed.

KC-767 International Tanker The KC-767 International Tanker program includes four aircraft for the Italian Air Force and four aircraft for the Japanese Air Self Defense Force. During 2010, 2009 and 2008, we recorded charges increasing the reach-forward losses in the KC-767 International Tanker program by $53 million, $78 million and $85 million, respectively. The final delivery to Japan was made in December 2009 and first delivery to Italy was made in December 2010. The Italian KC-767 Tanker program is ongoing, and while we believe the revenue and cost estimates incorporated in the financial statements are appropriate, the technical complexity of the program creates financial risk as additional completion and development costs may be necessary or remaining scheduled delivery dates could be delayed.

C-17 See the discussion of the C-17 program in Note 11 to our Consolidated Financial Statements.

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Network & Space Systems

Operating Results

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 9,455**	$ 10,877	$ 11,346
% of Total company revenues	**15%**	16%	19%
Earnings from operations	**$ 711**	$ 839	$ 1,034
Operating margins	**7.5%**	7.7%	9.1%
Research and development	**$ 417**	$ 397	$ 298
Contractual backlog	**$ 9,586**	$ 7,746	$ 8,868
Unobligated backlog	**$ 8,435**	$ 9,187	$ 16,981

Revenues N&SS revenues decreased 13% in 2010 and 4% in 2009. The decrease of $1,422 million in 2010 is primarily due to lower volume on the BCTM and GMD programs. The decrease of $469 million in 2009 is primarily due to lower volume on the GMD, Intelligence and Security Systems, and Proprietary programs, partly offset by higher volume on several satellite programs.

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

Years ended December 31,	**2010**	2009	2008
Delta II	**1**	1	2
Delta IV	**1**	1	
Commercial and civil satellites	**3**	3	1
Military satellites	**1**	3	

Operating Earnings N&SS earnings decreased by $128 million in 2010 primarily due to lower revenues. N&SS earnings decreased by $195 million in 2009 primarily due to lower revenues and charges related to the Sea Launch bankruptcy. Earnings in 2009 were also reduced by charges related to the settlement of a satellite contract dispute and indemnification of Delta II inventory. Earnings in 2008 included a favorable settlement on a civil satellite program. N&SS operating earnings include equity earnings of $189 million, $164 million and $178 million from the United Space Alliance joint venture and the United Launch Alliance (ULA) joint venture in 2010, 2009 and 2008, respectively.

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

Backlog N&SS total backlog increased 6% in 2010 compared with 2009 primarily due to two commercial satellite contract awards, a multi-year contract award on the International Space Station program and GMD contract awards, partially offset by revenues recognized on the BCTM program. Total backlog decreased by 34% in 2009 compared with 2008 partly due to the partial termination for convenience by the U.S. Army of the BCTM System Development and Demonstration contract related to Manned Ground Vehicles and associated systems and equipment. 2009 deliveries and sales on multi-year contracts awarded in prior years including BCTM, GMD, and Proprietary programs also contributed to the backlog reduction.

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Additional Considerations

United Launch Alliance On December 1, 2006, we and Lockheed Martin Corporation (Lockheed) created a 50/50 joint venture named United Launch Alliance L.L.C. ULA combines the production, engineering, test and launch operations associated with U.S. government launches of Boeing Delta and Lockheed Atlas rockets. We initially contributed net assets of $914 million at December 1, 2006. The book value of our investment exceeded our proportionate share of ULA s net assets. This difference is expensed ratably in future years. Based on the adjusted contributions and the conformed accounting policies established by ULA, this amortization is expected to be approximately $15 million annually for the next 14 years.

In connection with the formation of ULA, we and Lockheed each committed to provide up to $200 million to support ULA s working capital requirements through December 1, 2011. We and Lockheed transferred performance responsibility for certain U.S. government contracts to ULA as of the closing date. We and Lockheed agreed to jointly guarantee the performance of those contracts to the extent required by the U.S. government. We and Lockheed have also each committed to provide ULA with up to $232 million of additional capital contributions in the event ULA does not have sufficient funds to make a required payment to us under an inventory supply agreement. See Note 11 to our Consolidated Financial Statements.

We agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of $1,360 million of Boeing Delta launch program inventory included in contributed assets plus $1,860 million of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed $1,201 million of inventory that was contributed by us. ULA has made advance payments of $420 million to us and we have recorded revenues and cost of sales of $166 million under the inventory supply agreement through December 31, 2010. ULA is continuing to assess the future of the Delta II program beyond what is currently on contract. In the event ULA is unable to sell additional Delta II inventory, our earnings could be reduced by up to $70 million.

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 U.S. Air Force (USAF) for four satellite missions. We believe ULA is entitled to additional contract pricing. In December 2008, ULA submitted a claim to the USAF to re-price the contract value for two satellite missions. In March 2009, the USAF issued a denial of that claim and in June 2009, ULA filed an appeal. During 2009, the USAF exercised its option for a third satellite mission. During the third quarter of 2010, ULA submitted a claim to the USAF to re-price the contract value of the third mission. The USAF did not exercise an option for a fourth mission prior to expiration. If ULA is unsuccessful in obtaining additional pricing, we may be responsible for a portion of the shortfall and may record up to $283 million in pre-tax losses associated with the three missions, representing up to $261 million for the indemnification payment and up to $22 million for our portion of additional contract losses incurred by ULA.

Sea Launch See the discussion of the Sea Launch receivables in Note 6 to our Consolidated Financial Statements.

Satellites See the discussions of Boeing Satellite Systems International, Inc. (BSSI) in Note 20 to our Consolidated Financial Statements.

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Global Services & Support

Operating Results

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 8,250**	$ 8,480	$ 7,256
% of Total company revenues	**13%**	12%	12%
Earnings from operations	**$ 906**	$ 932	$ 904
Operating margins	**11.0%**	11.0%	12.5%
Research and development	**$ 130**	$ 122	$ 149
Contractual backlog	**$ 13,684**	$ 11,924	$ 10,615
Unobligated backlog	**$ 90**	$ 331	$ 703

Revenues GS&S revenues decreased $230 million in 2010, a decrease of 3%, and increased $1,224 million in 2009, an increase of 17%, in each case compared with the prior year. The 2010 decrease is primarily due to lower revenues on several Maintenance, Modifications and Upgrades (MM&U) programs partially offset by higher revenues on several Integrated Logistics (IL) programs. The 2009 increase was due to increased volume in the IL programs and the Training Systems and Services (TS&S) divisions.

Operating Earnings GS&S operating earnings decreased by 3% in 2010 primarily due to lower revenues. Operating earnings increased 3% in 2009 as additional earnings from increased volume were partially offset by lower margins due to contract adjustments and changes in contract mix.

Research and Development GS&S continues to focus investment strategies on its core businesses including IL, MM&U and TS&S, as well as on moving into new market areas of logistics command and control (Log C2) in Advanced Services and energy management in Boeing Energy. Investments have been made to continue the development and implementation of innovative tools, processes and systems as market discriminators in the delivery of integrated customer solutions.

Backlog GS&S total backlog increased by 12% in 2010 compared with 2009 primarily due to the award of the UK FLIS contract. Backlog also increased due to increases in several IL and MM&U programs, partially offset by decreases in several Training Systems programs. Total backlog increased by 8% in 2009 compared with 2008 due to significant growth in International Support and Defense and Government Services programs and partially offset by decreases in several IL and MM&U programs.

Boeing Capital Corporation

Business Environment and Trends

BCC s customer financing and investment portfolio at December 31, 2010 totaled $4,694 million. A substantial portion of BCC s portfolio is concentrated among certain U.S. commercial airline customers. BCC s portfolio is also concentrated by varying degrees across Boeing aircraft product types most notably out of production Boeing aircraft such as 717 aircraft.

We provided greater amounts of financing to Boeing customers during 2009 than in any of the preceding five years. Sources of financing available for aircraft deliveries improved during 2010 and as a result, we provided no financing for Boeing aircraft deliveries.

Aircraft values and lease rates are impacted by the number and type of aircraft that are currently out of service. Approximately 2,200 western-built commercial jet aircraft (10.5% of current world fleet) were parked at the end of 2010, including both in-production and out-of-production aircraft types. Of these parked aircraft, over 30% are not expected to return to service. At the end of 2009 and 2008, 11.6% and 11.0% of the western-built commercial jet aircraft were parked. Aircraft valuations could decline if significant numbers of additional aircraft, particularly types with relatively few operators, are placed out of service.

Summary Financial Information

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 639**	$ 660	$ 703
Earnings from operations	**$ 152**	$ 126	$ 162
Operating margins	**24%**	19%	23%

Revenues

BCC segment revenues consist principally of lease income from equipment under operating lease and interest from financing receivables and notes. BCC s revenues decreased $21 million and $43 million in 2010 and 2009, due to a smaller portfolio of equipment under operating leases as a result of aircraft returns and lower lease rates on re-leased aircraft.

Earnings From Operations

BCC s operating earnings are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Operating earnings increased by $26 million in 2010 compared with 2009 primarily due to lower impairment expense and lower provision for losses. The impact of declines in aircraft collateral values recognized by BCC and reduced projected cash flows for certain aircraft was not as significant in 2010 as it was in 2009. The decrease in operating earnings in 2009 compared with 2008 was primarily due to lower revenues and higher asset impairment expense and provision for losses.

Financial Position

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

(Dollars in millions)	**2010**	2009
BCC Customer Financing and Investment Portfolio	**$ 4,694**	$ 5,666
Valuation Allowance as a % of Total Receivables	**3.8%**	2.5%
Debt	**$ 3,446**	$ 4,075
Debt-to-Equity Ratio	**5.0-to-1**	5.8-to-1

BCC s customer financing and investment portfolio at December 31, 2010 decreased from December 31, 2009 due to normal portfolio run-off and asset pre-payments. At December 31, 2010 and 2009, BCC had $583 million and $385 million of assets that were held for sale or re-lease, of which $28 million and $345 million had either executed term sheets with deposits or firm contracts to be sold or placed on lease. The increase was primarily due to BCC s termination of aircraft leases with Aevovias Caribe S.A. de C.V. (Click), an affiliate of Compania Mexicana de Aviacion S.A. de C.V. (Mexicana), in August 2010. Additionally, aircraft subject to leases with a carrying value of approximately $174 million are scheduled to be returned off lease during 2011. These aircraft are being remarketed or we are seeking to have the leases extended.

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BCC enters into certain transactions with the Other segment 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.

Bankruptcies

In August 2010, Mexicana filed for bankruptcy protection in Mexico and the United States. At the time of those filings, BCC had leased and delivered 19 717 aircraft to Click, and 6 additional 717 aircraft were scheduled for delivery to Click under executed leases. On August 27, 2010, BCC served Click a notice of termination of all 25 leases as a result of non-payment. On or about August 28, 2010, Click ceased flight operations. In September 2010, Click filed for bankruptcy protection. BCC has recovered all of the aircraft that had been delivered to Click. In the third quarter of 2010, we recorded an $81 million net impairment charge related to certain 717 aircraft leased to Click. This charge was primarily recorded in the Other segment due to an intercompany guarantee between us and BCC. Additional impairment charges could be recorded if we are unable to re-lease the aircraft at anticipated rental rates.

Southwest/AirTran Merger

On September 26, 2010, Southwest Airlines Co. (Southwest) and AirTran Holdings, Inc. (AirTran) entered into an Agreement and Plan of Merger, whereby Southwest will acquire, subject to certain conditions, all of the outstanding common stock of AirTran. AirTran, together with its subsidiaries, represents approximately 27% of our gross customer financing portfolio carrying value, consisting principally of 717 aircraft. AirTran is the largest customer in terms of BCC s segment revenue and customer financing portfolio carrying value.

Restructurings and Restructuring Requests

From time to time, certain customers have requested a restructuring of their transactions with BCC. As of December 31, 2010, BCC has not reached agreement on any restructuring requests that would have a material adverse effect on its earnings, cash flows and/or financial position.

Other Segment

(Dollars in millions)

Years ended December 31,	**2010**	2009	2008
Revenues	**$ 138**	$ 165	$ 567
Loss from operations	**(327)**	(152)	(307)

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

Other segment revenues for the year ended December 31, 2009 decreased by $402 million compared with 2008 primarily due to the sale of three C-17 aircraft in 2008 held under operating lease. Other segment operating losses for the year ended December 31, 2009 decreased by $155 million primarily due to recognition of pre-tax expense of $82 million in the prior year to increase the allowance for losses on customer financing receivables related to lower U.S. airline customer credit ratings. During 2009, Other segment recognized $76 million in lower charges relating to environmental remediation than in 2008.

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Liquidity and Capital Resources

Cash Flow Summary

(Dollars in millions)			
Years ended December 31,	**2010**	2009	2008
Net earnings	**$ 3,307**	$ 1,312	$ 2,672
Non-cash items	**2,679**	2,381	1,829
Changes in working capital	**(3,034)**	1,910	(4,902)
Net cash provided/(used) by operating activities	**2,952**	5,603	(401)
Net cash (used)/provided by investing activities	**(4,831)**	(3,794)	1,888
Net cash (used)/provided by financing activities	**(1,962)**	4,094	(5,202)
Effect of exchange rate changes on cash and cash equivalents	**(15)**	44	(59)
Net (decrease)/increase in cash and cash equivalents	**(3,856)**	5,947	(3,774)
Cash and cash equivalents at beginning of year	**9,215**	3,268	7,042
Cash and cash equivalents at end of year	**$ 5,359**	$ 9,215	$ 3,268

Operating Activities Net cash provided by operating activities decreased by $2,651 million to $2,952 million during 2010 compared with 2009 primarily due to higher net working capital in 2010, driven by growth in inventory as we continue to build inventories prior to the anticipated delivery and production ramp-up of the 787 and 747-8 programs. We expect the 787 inventory growth in 2011 to be similar to the growth experienced in 2010 while we expect 747-8 inventory to begin to decline as aircraft are delivered.

Investing Activities Cash used by investing activities totaled $4,831 million during 2010 compared with $3,794 million used during 2009, primarily due to higher net contributions to time deposits during 2010. In 2010, capital expenditures totaled $1,125 million down from $1,186 million in 2009. We expect capital spending in 2011 to be higher than 2010 due to the ongoing construction of a 787 final assembly line in North Charleston, South Carolina and higher spending to support commercial airplane production rate increases. Expenditures on acquisitions totaled $932 million, up from $639 million, largely reflecting the acquisition of Argon ST, Inc. for $782 million.

Financing Activities Cash used by financing activities totaled $1,962 million during 2010 compared with $4,094 million provided during 2009, primarily due to proceeds from borrowings of $5,961 million in 2009.

At December 31, 2010 and 2009, the recorded balance of debt was $12,421 million and $12,924 million, of which $948 million and $707 million were classified as short-term. This includes $3,446 million and $4,075 million of debt recorded at BCC, of which $801 million and $659 million were classified as short-term. In 2010, we repaid $689 million of debt, including repayments of $645 million of debt held at BCC.

In 2010, we had 494,939 shares transferred to us from employees for tax withholding and did not repurchase any shares through our open market share repurchase program. During 2009 and 2008, cash used in our open market share repurchase program totaled $50 million and $2,937 million. In 2008, we also repurchased shares for $95 million as part of the ShareValue Trust distribution.

Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We and BCC have commercial paper programs that continue to serve as significant potential sources of short-term liquidity. Throughout 2010 and at December 31, 2010, neither we nor BCC had any commercial paper borrowings outstanding. Currently, we have $4,376 million ($1,500 million exclusively available for BCC) of unused borrowing on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support possible commercial paper borrowings.

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

At December 31, 2010 and 2009, our pension plans were $9,854 million and $6,356 million underfunded as measured under GAAP. On an ERISA basis our plans are more than 100% funded. In 2011, we expect to make discretionary contributions to our plans of approximately $500 million. Absent increases in interest rates and/or higher asset values, we may be required to make significant contributions to our pension plans in the future.

As of December 31, 2010, 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.

Contractual Obligations

The following table summarizes our known obligations to make future payments pursuant to certain contracts as of December 31, 2010, and the estimated timing thereof.

(Dollars in millions)	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt (including current portion)	$ 12,253	$ 876	$ 3,510	$ 2,103	$ 5,764
Interest on debt [1]	6,990	622	1,025	773	4,570
Pension and other postretirement cash requirements	20,638	632	1,622	6,643	11,741
Capital lease obligations	190	63	97	30	
Operating lease obligations	1,159	217	280	164	498
Purchase obligations not recorded on the Consolidated Statements of Financial Position	104,775	34,572	40,197	20,442	9,564
Purchase obligations recorded on the Consolidated Statements of Financial Position	12,676	12,345	331		
Total contractual obligations	$ 158,681	$ 49,327	$ 47,062	$ 30,155	$ 32,137

(1) Includes interest on variable rate debt calculated based on interest rates at December 31, 2010. Variable rate debt was approximately 1% of our total debt at December 31, 2010.

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

Purchase Obligations Purchase obligations represent contractual agreements to purchase goods or services that are legally binding; specify a fixed, minimum or range of quantities; specify a fixed, minimum, variable, or indexed price provision; and specify approximate timing of the transaction. Purchase obligations include amounts recorded as well as amounts that are not recorded on the

Consolidated Statements of Financial Position. Approximately 8% of the purchase obligations disclosed above are reimbursable to us pursuant to cost-type government contracts.

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

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

Industrial Participation Agreements We have entered into various industrial participation agreements with certain customers outside of the U.S. to facilitate economic flow back and/or technology transfer to their businesses or government agencies as the result of their procurement of goods and/or services from us. These commitments may be satisfied by our placement of direct work or vendor orders for supplies, opportunities to bid on supply contracts, transfer of technology or other forms of assistance. However, in certain cases, our commitments may be satisfied through other parties (such as our vendors) who purchase supplies from our non-U.S. customers. We do not commit to industrial participation agreements unless a contract for sale of our products or services is signed. In certain cases, penalties could be imposed if we do not meet our industrial participation commitments. During 2010, we incurred no such penalties. As of December 31, 2010, we have outstanding industrial participation agreements totaling $9.7 billion that extend through 2024. Purchase order commitments associated with industrial participation agreements are included in the table above. To be eligible for such a purchase order commitment from us, a foreign supplier must have sufficient capability to meet our requirements and must be competitive in cost, quality and schedule.

Income Tax Obligations As of December 31, 2010, our total liability for income taxes payable, including uncertain tax positions, was $499 million, of which $81 million we expect to pay in the next twelve months. We are not able to reasonably estimate the timing of future cash flows related to the remaining $418 million. Our income tax obligations are excluded from the table above. See Note 5 to our Consolidated Financial Statements.

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Commercial Commitments

The following table summarizes our commercial commitments outstanding as of December 31, 2010.

(Dollars in millions)	Total Amounts Committed/Maximum Amount of Loss	Less than 1 year	1-3 Years	4-5 years	After 5 years
Standby letters of credit and surety bonds	$ 7,599	$ 5,560	$ 1,542	$ 328	$ 169
Commercial aircraft financing commitments	9,865	1,234	2,035	2,775	3,821
Total commercial commitments	$ 17,464	$ 6,794	$ 3,577	$ 3,103	$ 3,990

Commercial aircraft financing commitments include commitments to provide financing related to aircraft on order, under option for deliveries or proposed as part of sales campaigns based on estimated earliest potential funding dates. Based on historical experience, we currently do not anticipate that all of these commitments will be exercised by our customers; however there can be no assurances that we will not be required to fund greater amounts than historically required. See Note 11 to our Consolidated Financial Statements.

Contingent Obligations

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

Legal Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 20 to our Consolidated Financial Statements, including our contesting the default termination of the A-12 aircraft, certain employment and benefits litigation, litigation/arbitration involving BSSI programs and civil securities litigation relating to disclosures concerning the 787 program.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $721 million at December 31, 2010. For additional information, see Note 11 to our Consolidated Financial Statements.

Income Taxes We have recorded a net liability of $1,198 million at December 31, 2010 for uncertain tax positions. For further discussion of these contingencies, see Note 5 to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

Contract Accounting

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

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

The development of cost of sales percentages involves procedures and personnel in all areas that provide financial or production information on the status of contracts. Estimates of each significant contract s sales and costs are reviewed and reassessed quarterly. Any changes in these estimates result in recognition of cumulative adjustments to the contract profit in the period in which changes are made.

Due to the significance of judgment in the estimation process described above, it is likely that materially different cost of sales amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions/estimates, supplier performance, or circumstances may adversely or positively affect financial performance in future periods. If the combined gross margin for all contracts in BDS for all of 2010 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately $319 million. A number of our contracts are in a reach forward loss position. Changes to estimated loss in future periods are recorded immediately in earnings.

Program Accounting

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

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

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

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

Due to the significance of judgment in the estimation process described above, it is likely that materially different cost of sales amounts could be recorded if we used different assumptions, or if the underlying circumstances were to change. Changes in underlying assumptions/estimates, supplier performance, or circumstances may adversely or positively affect financial performance in future periods. If combined cost of sales percentages for commercial airplane programs, excluding the 747 and 787 programs, for all of 2010 had been estimated to be higher or lower by 1%, it would have increased or decreased pre-tax income for the year by approximately $261 million.

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

Our current assessment is that the 787 program does not have a reach-forward loss. The cumulative impacts of the production challenges, schedule delays and customer and supplier impacts have created significant pressure on revenue and cost estimates such that we expect to record zero margin on the initial deliveries. The scale and duration of the 787 program is such that relatively minor changes in assumptions or variables could have a material effect on our reported results in any period if the program is determined to have a reach-forward loss.

Aircraft Valuation

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

Three primary factors influencing the level of our allowance are customer credit ratings, collateral values and default rates. If each customer s credit rating were upgraded or downgraded by one major rating category at December 31, 2010, the allowance would have decreased by $163 million or increased by $343 million. If the collateral values were 20% higher or lower at December 31, 2010, the allowance would have decreased by $94 million or increased by $72 million. If the cumulative default rates used for each rating category should increase or decrease 1%, the allowance would have increased or decreased by $7 million.

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

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

Had future lease rates on assets evaluated for impairment been 10% lower, we estimate that we would have incurred additional impairment expense of $30 million for the year ended December 31, 2010.

Residual Values Equipment under operating leases and assets held for re-lease are carried at cost less accumulated depreciation and are depreciated to estimated residual value using the straight-line method over the period that we project we will hold the asset for lease. Estimates used in determining residual values significantly impact the amount and timing of depreciation expense for equipment under operating leases and assets held for re-lease. If the estimated residual values declined 20% at December 31, 2010, we estimate that we would have incurred additional impairment expense of $31 million for the year ended December 31, 2010, and a future cumulative pre-tax earnings reduction of approximately $132 million recognized over the remaining depreciable periods, of which approximately $30 million would be recognized in 2011.

Our investment in sales-type/finance leases includes future minimum lease payments receivable plus the estimated residual value of leased assets less unearned income. Declines in estimated residual value that are deemed other than temporary are recognized in the period in which the decline occurs. If the estimated residual values declined 20% at December 31, 2010, we estimate that we would have reduced pre-tax income by $50 million for the year ended December 31, 2010.

Goodwill and Indefinite-Lived Intangible Impairments

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

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

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

Changes in our forecasts or decreases in the value of our common stock could cause book values of certain operations to exceed their fair values which may result in goodwill impairment charges in future

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periods. A 10% decrease in the estimated fair value of any of our operations would have no impact on the carrying value of goodwill.

As of December 31, 2010 and 2009, we had $499 million of indefinite-lived intangible assets related to the Jeppesen and Aviall brand and trade names acquired in business combinations. We test these intangibles for impairment by comparing their carrying value to current projections of discounted cash flows attributable to the brand and trade names. Any excess carrying value over the amount of discounted cash flows represents the amount of the impairment. A 10% decrease in the discounted cash flows would reduce the carrying value of these indefinite-lived intangible assets by less than $1 million.

Postretirement Plans

Almost all of our employees are covered by defined benefit pension plans with the exception of all nonunion and some union employees hired after December 31, 2008. We also have other postretirement benefits consisting principally of healthcare coverage for eligible retirees and qualifying dependents. Accounting rules require an annual measurement of our projected obligations and plan assets. These measurements are based upon several assumptions, including the discount rate, the expected long-term rate of asset return, and medical trend rate (rate of growth for medical costs). Future changes in assumptions or differences between actual and expected outcomes can significantly affect our future annual expense, projected benefit obligations and Shareholders equity.

The following table shows the sensitivity of our pension and other postretirement benefit plan liabilities and net periodic cost to a 25 basis point change in the discount rate as of December 31, 2010.

(Dollars in millions)	Change in discount rate Increase 25 bps	Change in discount rate Decrease 25 bps
Pension plans		
Projected benefit obligation	$ (1,772)	$ 2,204
Net periodic pension cost	(185)	225
Other postretirement benefit plans		
Accumulated postretirement benefit obligation	(192)	228
Net periodic postretirement benefit cost	(15)	17

Pension expense is also sensitive to changes in the expected long-term rate of asset return. A decrease or increase of 25 basis points in the expected long-term rate of asset return would have increased or decreased 2010 net periodic pension expense by $123 million.

Differences between actual and expected returns can affect future year s pension cost. The asset balance used to calculate the expected return on pension plan assets is a calculated value that recognizes changes in the fair value of assets over a five year period. Despite investment gains during 2010 and 2009, the significant losses incurred during 2008 will cause 2011 net periodic pension cost to increase by approximately $1.0 billion and the portion recognized in earnings for 2011 to increase by approximately $650 million primarily due to amortization of actuarial losses. Absent increases in interest rates, higher asset values and/or higher contributions, net periodic pension cost will increase further in future years.

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The assumed medical trend rates have a significant effect on the following year s expense, recorded liabilities and Shareholders equity. The following table shows the sensitivity of our other postretirement benefit plan liabilities and net periodic cost to a 100 basis point change as of December 31, 2010.

(Dollars in millions)	Change in medical trend rate Increase 100 bps	Change in medical trend rate Decrease 100 bps
Other postretirement benefit plans		
Accumulated postretirement benefit obligation	$ 742	$ (654)
Net periodic postretirement benefit cost	125	(110)

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have financial instruments that are subject to interest rate risk, principally fixed-rate debt obligations, and customer financing assets and liabilities. Additionally, BCC uses interest rate swaps with certain debt obligations to manage exposure to interest rate changes. Exposure to this risk is managed by generally matching the profile of BCC s liabilities with that of BCC s assets in relation to amount and terms such as expected maturities and fixed versus floating interest rates. As of December 31, 2010, the impact over the next 12 months of a 100 basis point immediate and sustained rise in interest rates would be a $5 million increase to BCC s pre-tax earnings. For purposes of the foregoing sensitivity analysis, we assume that the level of our floating rate assets and debt (including the impact of derivatives) remain unchanged from year-end 2010 and that they are all subject to immediate re-pricing. Historically, we have not experienced material gains or losses on our investments or customer financing assets and liabilities due to interest rate changes.

Based on the portfolio of other Boeing fixed-rate debt, the unhedged exposure to interest rate risk is not material. The investors in our fixed-rate debt obligations do not generally have the right to demand we pay off these obligations prior to maturity. Therefore, exposure to interest rate risk is not believed to be material for our fixed-rate debt.

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange rate risk relating to receipts from customers and payments to suppliers in foreign currencies. We use foreign currency forward and option contracts to hedge the price risk associated with firmly committed and forecasted foreign denominated payments and receipts related to our ongoing business. Foreign currency forward and option contracts are sensitive to changes in foreign currency exchange rates. At December 31, 2010, a 10% increase in the exchange rate in our portfolio of foreign currency contracts would have decreased our unrealized gains by $159 million and a 10% decrease in the exchange rate would have increased our unrealized gains by $173 million. At December 31, 2009, a 10% increase in the exchange rate in our portfolio of foreign currency contracts would have decreased our unrealized gains by $136 million and a 10% decrease in the exchange rate would have increased our unrealized gains by $150 million. Consistent with the use of these contracts to neutralize the effect of exchange rate fluctuations, such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying transactions being hedged. When taken together, these forward currency contracts and the offsetting underlying commitments do not create material market risk.

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Item 8. Financial Statements and Supplementary Data

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The Boeing Company and Subsidiaries

Consolidated Statements of Operations

(Dollars in millions, except per share data)

Years ended December 31,	**2010**	2009	2008
Sales of products	**$ 52,586**	$ 57,032	$ 50,180
Sales of services	**11,720**	11,249	10,729
Total revenues	**64,306**	68,281	60,909
Cost of products	**(42,194)**	(47,639)	(41,662)
Cost of services	**(9,489)**	(8,726)	(8,467)
Boeing Capital Corporation interest expense	**(160)**	(175)	(223)
Total costs and expenses	**(51,843)**	(56,540)	(50,352)
	12,463	11,741	10,557
Income from operating investments, net	**267**	249	241
General and administrative expense	**(3,644)**	(3,364)	(3,084)
Research and development expense, net	**(4,121)**	(6,506)	(3,768)
Gain/(loss) on dispositions, net	**6**	(24)	4
Earnings from operations	**4,971**	2,096	3,950
Other income/(expense), net	**52**	(26)	247
Interest and debt expense	**(516)**	(339)	(202)
Earnings before income taxes	**4,507**	1,731	3,995
Income tax expense	**(1,196)**		