BOEING CO
Form 10-Q
July 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-442
THE BOEING COMPANY
(Exact name of registrant as specified in its charter)

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 19, 2017, there were 591,083,386 shares of common stock, $5.00 par value, issued and outstanding.

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Part II. Other Information

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Part I. Financial Information
Item 1. Financial Statements
The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Dollars in millions, except per share data)	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Sales of products	$38,659	$42,069	$20,147	$22,184
Sales of services	5,056	5,318	2,592	2,571
Total revenues	43,715	47,387	22,739	24,755
Cost of products	(31,806)	(37,210)	(16,443)	(20,265)
Cost of services	(3,820)	(4,180)	(1,932)	(2,044)
Boeing Capital interest expense	(26)	(32)	(13)	(16)
Total costs and expenses	(35,652)	(41,422)	(18,388)	(22,325)
	8,063	5,965	4,351	2,430
Income from operating investments, net	120	151	39	97
General and administrative expense	(1,973)	(1,694)	(1,040)	(806)
Research and development expense, net	(1,651)	(3,044)	(813)	(2,127)
Loss on dispositions, net		(9)	(2)	(13)
Earnings/(loss) from operations	4,559	1,369	2,535	(419)
Other income, net	49	39	27	13
Interest and debt expense	(180)	(146)	(93)	(73)
Earnings/(loss) before income taxes	4,428	1,262	2,469	(479)
Income tax (expense)/benefit	(1,216)	(277)	(708)	245
Net earnings/(loss)	$3,212	$985	$1,761	($234)
Basic earnings/(loss) per share	$5.28	$1.52	$2.93	($0.37)
Diluted earnings/(loss) per share	$5.22	$1.51	$2.89	($0.37)
Cash dividends paid per share	$2.84	$2.18	$1.42	$1.09
Weighted average diluted shares (millions)	615.3	654.9	609.6	636.3

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Net earnings/(loss)	$3,212	$985	$1,761	($234)
Other comprehensive income, net of tax:				
Currency translation adjustments	77	7	43	(16)
Unrealized (loss)/gain on certain investments, net of tax of $0, $1, $1, and $0		(1)	(1)	1
Unrealized gain/(loss) on derivative instruments:				
Unrealized gain/(loss) arising during period, net of tax of ($39), ($23), ($11), and $9	71	41	19	(17)
Reclassification adjustment for losses included in net earnings, net of tax of ($19), ($24), ($10), and ($12)	34	43	18	20
Total unrealized gain on derivative instruments, net of tax	105	84	37	3
Defined benefit pension plans and other postretirement benefits:				
Amortization of prior service credits included in net periodic pension cost, net of tax of $31, $15, $15, and $8	(57)	(27)	(29)	(13)
Net actuarial gain/(loss) arising during the period, net of tax of ($1), $215, $0, and $34	3	(387)		(59)
Amortization of actuarial losses included in net periodic pension cost, net of tax of ($145), ($145), ($73), and ($73)	263	261	131	130
Settlements and curtailments included in net income, net of tax of $0, ($7), $0, and ($1)		14		3
Pension and postretirement (cost)/benefit related to our equity method investments, net of tax of $1, ($1), $0, and $3	(2)	2		(6)
Total defined benefit pension plans and other postretirement benefits, net of tax	207	(137)	102	55
Other comprehensive income/(loss), net of tax	389	(47)	181	43
Comprehensive loss related to noncontrolling interests	(1)		(1)	(1)
Comprehensive income/(loss), net of tax	$3,600	$938	$1,941	($192)

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions, except per share data)	June 30 2017	December 31 2016
Assets		
Cash and cash equivalents	$8,737	$8,801
Short-term and other investments	1,589	1,228
Accounts receivable, net	9,503	8,832
Current portion of customer financing, net	549	428
Inventories, net of advances and progress billings	42,453	43,199
Total current assets	62,831	62,488
Customer financing, net	3,398	3,773
Property, plant and equipment, net of accumulated depreciation of $17,380 and $16,883	12,820	12,807
Goodwill	5,347	5,324
Acquired intangible assets, net	2,567	2,540
Deferred income taxes	325	332
Investments	1,278	1,317
Other assets, net of accumulated amortization of $484 and $497	1,470	1,416
Total assets	$90,036	$89,997
Liabilities and equity		
Accounts payable	$12,093	$11,190
Accrued liabilities	14,294	14,691
Advances and billings in excess of related costs	25,802	23,869
Short-term debt and current portion of long-term debt	720	384
Total current liabilities	52,909	50,134
Deferred income taxes	1,415	1,338
Accrued retiree health care	5,856	5,916
Accrued pension plan liability, net	19,651	19,943
Other long-term liabilities	2,128	2,221
Long-term debt	10,055	9,568
Shareholders' equity:		
Common stock, par value $5.00 – 1,200,000,000 shares authorized; 1,012,261,159 shares issued	5,061	5,061
Additional paid-in capital	4,644	4,762
Treasury stock, at cost - 419,062,607 and 395,109,568 shares	(40,730)	(36,097)
Retained earnings	42,222	40,714
Accumulated other comprehensive loss	(13,234)	(13,623)
Total shareholders' equity	(2,037)	817
Noncontrolling interests	59	60
Total equity	(1,978)	877
Total liabilities and equity	$90,036	$89,997

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30	
	2017	2016
Cash flows – operating activities:		
Net earnings	$3,212	$985
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash items –		
Share-based plans expense	98	97
Depreciation and amortization	965	890
Investment/asset impairment charges, net	46	50
Customer financing valuation expense/(benefit)	5	(4)
Loss on dispositions, net		9
Other charges and credits, net	129	141
Changes in assets and liabilities –		
Accounts receivable	(912)	(503)
Inventories, net of advances and progress billings	877	3,004
Accounts payable	419	1,221
Accrued liabilities	(680)	(269)
Advances and billings in excess of related costs	1,934	(954)
Income taxes receivable, payable and deferred	712	(494)
Other long-term liabilities	(18)	(103)
Pension and other postretirement plans	13	181
Customer financing, net	343	275
Other	(99)	(61)
Net cash provided by operating activities	7,044	4,465
Cash flows – investing activities:		
Property, plant and equipment additions	(905)	(1,419)
Property, plant and equipment reductions	25	13
Contributions to investments	(1,820)	(657)
Proceeds from investments	1,441	705
Purchase of distribution rights	(131)	
Other	4	8
Net cash used by investing activities	(1,386)	(1,350)
Cash flows – financing activities:		
New borrowings	874	1,323
Debt repayments	(56)	(267)
Repayments of distribution rights and other asset financing		(24)
Stock options exercised	240	147
Employee taxes on certain share-based payment arrangements	(112)	(79)
Common shares repurchased	(5,000)	(5,501)
Dividends paid	(1,720)	(1,408)
Net cash used by financing activities	(5,774)	(5,809)
Effect of exchange rate changes on cash and cash equivalents	52	(3)
Net decrease in cash and cash equivalents	(64)	(2,697)
Cash and cash equivalents at beginning of year	8,801	11,302
Cash and cash equivalents at end of period	$8,737	$8,605

See Notes to the Condensed Consolidated Financial Statements.

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

	Boeing shareholders						
(Dollars in millions, except per share data)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance at January 1, 2016	$5,061	$4,834	($29,568)	$38,756	($12,748)	$62	$6,397
Net earnings				985			985
Other comprehensive income, net of tax of $31					(47)		(47)
Share-based compensation and related dividend equivalents		110		(15)			95
Treasury shares issued for stock options exercised, net		(20)	167				147
Treasury shares issued for other share-based plans, net		(146)	81				(65)
Common shares repurchased			(5,501)				(5,501)
Cash dividends declared ($2.18 per share)				(1,364)			(1,364)
Balance at June 30, 2016	$5,061	$4,778	($34,821)	$38,362	($12,795)	$62	$647
Balance at January 1, 2017	$5,061	$4,762	($36,097)	$40,714	($13,623)	$60	$877
Net earnings				3,212		(1)	3,211
Other comprehensive loss, net of tax of ($172)					389		389
Share-based compensation and related dividend equivalents		116		(17)			99
Treasury shares issued for stock options exercised, net		(63)	304				241
Treasury shares issued for other share-based plans, net		(171)	63				(108)
Common shares repurchased			(5,000)				(5,000)
Cash dividends declared ($2.84 per share)				(1,687)			(1,687)
Balance at June 30, 2017	$5,061	$4,644	($40,730)	$42,222	($13,234)	$59	($1,978)

See Notes to the Condensed Consolidated Financial Statements.

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

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Revenues:				
Commercial Airplanes	$30,018	$31,855	$15,713	$17,456
Defense, Space & Security:				
Boeing Military Aircraft	5,540	6,638	2,904	2,979
Network & Space Systems	3,238	3,545	1,674	1,810
Global Services & Support	4,640	4,947	2,308	2,385
Total Defense, Space & Security	13,418	15,130	6,886	7,174
Boeing Capital	164	148	72	84
Unallocated items, eliminations and other	115	254	68	41
Total revenues	$43,715	$47,387	$22,739	$24,755
Earnings/(loss) from operations:				
Commercial Airplanes	$2,782	$60	$1,567	($973)
Defense, Space & Security:				
Boeing Military Aircraft	703	509	382	175
Network & Space Systems	250	301	152	153
Global Services & Support	674	605	356	265
Total Defense, Space & Security	1,627	1,415	890	593
Boeing Capital	64	23	25	18
Segment operating profit/(loss)	4,473	1,498	2,482	(362)
Unallocated items, eliminations and other	86	(129)	53	(57)
Earnings/(loss) from operations	4,559	1,369	2,535	(419)
Other income, net	49	39	27	13
Interest and debt expense	(180)	(146)	(93)	(73)
Earnings/(loss) before income taxes	4,428	1,262	2,469	(479)
Income tax (expense)/benefit	(1,216)	(277)	(708)	245
Net earnings/(loss)	$3,212	$985	$1,761	($234)

This information is an integral part of the Notes to the Condensed Consolidated Financial Statements. See Note 17 for further segment results.

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

Note 1 – Basis of Presentation

The condensed consolidated interim financial statements included in this report have been prepared by management of The Boeing Company (herein referred to as "Boeing", the "Company", "we", "us", or "our"). In the opinion of management, al adjustments (consisting of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The results of operations for the period ended June 30, 2017 are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto, included in our 2016 Annual Report on Form 10-K.

Standards Issued and Not Yet Implemented

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We do not expect the new lease standard to have a material effect on our financial position, results of operations or cash flows.

We plan to adopt ASU No. 2014-09, Revenue from Contracts with Customers effective January 1, 2018 and apply it retrospectively to all periods presented. This comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The standard also requires expanded disclosures regarding revenue and contracts with customers.

We expect adoption of the new standard will have a material impact on our income statement and balance sheet. We currently expect that most of our Defense, Space & Security (BDS) contracts that currently recognize revenue as deliveries are made or based on the attainment of performance milestones will recognize revenue under the new standard as costs are incurred. Certain military derivative aircraft contracts in our Commercial Airplane (BCA) business will also recognize revenue as costs are incurred. The new standard will not change the total amount of revenue recognized on these contracts, only accelerate the timing of when the revenue is recognized. We expect a corresponding acceleration in timing of cost of sales recognition for these contracts resulting in a decrease in Inventories from long-term contracts in progress upon adoption of the new standard.

We do not expect the new standard to affect revenue recognition or the use of program accounting for commercial airplane contracts in our BCA business. We will continue to recognize revenue for these contracts at the point in time when the customer accepts delivery of the airplane.

We have completed a preliminary assessment of the impact of adopting the new standard on previously reported 2016 and prior period results. Because revenue will be recognized under the new standard as costs are incurred for most of our defense and military derivative airplane contracts, approximately $10,000 of revenues and $1,000 of associated earnings will be accelerated into years ending prior to the January 1, 2016 effective date. Therefore, as of January 1, 2016, we expect to record a cumulative adjustment to increase retained earnings by approximately $1,000. We expect consolidated revenues previously reported in 2016 to decrease by approximately $1,000, primarily reflecting $2,000 of lower revenues on several defense contracts that currently recognize revenues as deliveries are made, partially offset by higher KC-46A Tanker revenues. These revenue changes are expected to reduce previously reported segment operating earnings by approximately $400. We expect the reduction in 2016 segment operating earnings to be offset by increases in unallocated pension income. We expect adoption will increase total assets and total liabilities

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by approximately $20,000 primarily due to classifying certain advances from customers as liabilities under the new standard, whereas these advances were netted against inventory under existing Generally Accepted Accounting Principles (GAAP). We expect the new standard to have no impact on cash flows reported in 2016. The impact of the new standard on our 2016 financial results may not be representative of the impact on our financial position and operating results in subsequent years.

We are continuing to analyze the impact of the new standard on the Company’s revenue contracts, comparing our current accounting policies and practices to the requirements of the new standard. The new standard requires additional detailed disclosures regarding the company’s contracts with customers, including disclosure of remaining unsatisfied performance obligations, in the first quarter 2018 which we are continuing to assess. We are also identifying and implementing changes to the Company’s business processes, systems and controls to support adoption of the new standard in 2018 and recasting prior periods’ financial information.

Use of Estimates

Management makes assumptions and estimates to prepare financial statements in conformity with GAAP. Those assumptions and estimates directly affect the amounts reported in the Condensed Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are disclosed in these Notes to the Condensed Consolidated Financial Statements.

Contract accounting is used for development and production activities predominantly by BDS. Contract accounting involves a judgmental process of estimating total sales and costs for each contract resulting in the development of estimated cost of sales percentages. Changes in estimated revenues, cost of sales and the related effect on operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract’s percent complete. Net cumulative catch-up adjustments to prior years' earnings, including reach-forward losses, across all contracts were as follows:

	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Increase/(Decrease) to Earnings from Operations	$263	($587)	$231	($503)
Increase/(Decrease) to Diluted EPS	$0.31	($0.70)	$0.27	($0.39)

Note 2 – Earnings Per Share

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

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

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

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

(In millions - except per share amounts)	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Net earnings/(loss)	$3,212	$985	$1,761	($234)
Less: earnings available to participating securities	2			
Net earnings/(loss) available to common shareholders	$3,210	$985	$1,761	($234)
Basic				
Basic weighted average shares outstanding	608.4	648.5	602.5	636.3
Less: participating securities	0.8	1.0	0.7	1.0
Basic weighted average common shares outstanding	607.6	647.5	601.8	635.3
Diluted				
Basic weighted average shares outstanding	608.4	648.5	602.5	636.3
Dilutive potential common shares[(1)]	6.9	6.4	7.1	
Diluted weighted average shares outstanding	615.3	654.9	609.6	636.3
Less: participating securities	0.8	1.0	0.7	1.0
Diluted weighted average common shares outstanding	614.5	653.9	608.9	635.3
Net earnings/(loss) per share:				
Basic	$5.28	$1.52	$2.93	($0.37)
Diluted	5.22	1.51	2.89	(0.37)

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

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

(Shares in millions)	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Performance awards	5.2	7.5	4.7	7.3
Performance-based restricted stock units	0.9	2.6	0.5	3.3

Note 3 – Income Taxes

Our effective income tax rates were 27.5% and 28.7% for the six and three months ended June 30, 2017 and 21.9% and 51.1% for the same periods in the prior year. The year-over-year effective tax rate variances for both periods are primarily due to higher year-to-date and projected pre-tax earnings in 2017. In addition, higher share-based compensation tax benefits were recognized for the six-month period of 2017 compared with the prior year.

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

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Note 4 – Inventories

Inventories consisted of the following:

	June 30 2017	December 31 2016
Long-term contracts in progress	$13,961	$12,801
Commercial aircraft programs	53,240	52,048
Commercial spare parts, used aircraft, general stock materials and other	5,356	5,446
Inventory before advances and progress billings	72,557	70,295
Less advances and progress billings	(30,104)	(27,096)
Total	$42,453	$43,199

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. The inventory balance was $120 (net of advances of $192 and $220) at June 30, 2017 and December 31, 2016. See indemnifications to ULA in Note 9.

Included in inventories are capitalized precontract costs of $806 and $729 primarily related to KC-46A Tanker and C-17 at June 30, 2017 and December 31, 2016.

Commercial Aircraft Programs

At June 30, 2017 and December 31, 2016, commercial aircraft programs inventory included the following amounts related to the 787 program: $32,047 and $32,501 of work in process (including deferred production costs of $26,461 and $27,308), $2,608 and $2,398 of supplier advances, and $3,390 and $3,625 of unamortized tooling and other non-recurring costs. At June 30, 2017, $24,246 of 787 deferred production costs, unamortized tooling and other non-recurring costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $5,605 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At June 30, 2017 and December 31, 2016, commercial aircraft programs inventory included $239 and $284 of unamortized tooling costs related to the 747 program. At June 30, 2017, $195 of unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $44 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At June 30, 2017 and December 31, 2016, work in process inventory included a number of completed 747 aircraft that we expect to recover from future orders.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $3,002 and $3,117 at June 30, 2017 and December 31, 2016.

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Note 5 – Customer Financing

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

	June 30 2017	December 31 2016
Financing receivables:		
Investment in sales-type/finance leases	$1,425	$1,482
Notes	884	807
Total financing receivables	2,309	2,289
Operating lease equipment, at cost, less accumulated depreciation of $339 and $359	1,653	1,922
Gross customer financing	3,962	4,211
Less allowance for losses on receivables	(15)	(10)
Total	$3,947	$4,201

We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms. At June 30, 2017 and December 31, 2016, we individually evaluated for impairment customer financing receivables of $56 and $55, of which $45 and $44 were determined to be impaired. We recorded no allowance for losses on these impaired receivables as the collateral values exceeded the carrying values of the receivables.

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

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

Rating categories	June 30 2017	December 31 2016
BBB	$1,233	$1,324
BB	507	538
B	525	383
CCC	44	44
Total carrying value of financing receivables	$2,309	$2,289

At June 30, 2017, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 17.5%, 8.4% and 1.0%, respectively, to the exposure associated with those receivables.

Customer Financing Exposure

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

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

	June 30 2017	December 31 2016
717 Aircraft ($290 and $301 accounted for as operating leases)	$1,171	$1,282
747-8 Aircraft ($938 and $1,086 accounted for as operating leases)	1,058	1,111
757 Aircraft ($41 and $43 accounted for as operating leases)	238	246
MD-80 Aircraft (accounted for as sales-type finance leases)	232	259
777 Aircraft ($14 and $0 accounted for as operating leases)	167	165
747-400 Aircraft ($90 and $149 accounted for as operating leases)	163	149
767 Aircraft ($28 and $85 accounted for as operating leases)	107	170
737 Aircraft ($97 and $103 accounted for as operating leases)	102	103

Note 6 – Investments

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

	June 30 2017	December 31 2016
Equity method investments (1)	$1,220	$1,242
Time deposits	1,028	665
Available-for-sale investments	514	537
Restricted cash & cash equivalents(2)	74	68
Other investments	31	33
Total	$2,867	$2,545

(1) Dividends received were $148 and $52 for the six and three months ended June 30, 2017 and $166 and $117 during the same periods in the prior year.

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

Note 7 – Other Assets

Sea Launch

At June 30, 2017 and December 31, 2016, Other assets included $356 of receivables related to our former investment in the Sea Launch venture which became payable by certain Sea Launch partners following Sea Launch's bankruptcy filing in June 2009. The net amounts owed to Boeing by each of the partners are as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia (RSC Energia) – $223, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

On February 1, 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners. On May 12, 2016, the court issued a judgment in favor of Boeing.

In December 2016, we reached an agreement which we believe will enable us to recover the outstanding receivable balance from RSC Energia over the next several years. The agreement was subject to certain contingencies which were resolved during the first quarter of 2017. We continue to pursue collection efforts against the former Ukrainian partners in connection with the court judgment and continue to believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement from the Sea Launch partners, we could incur additional charges. Our current assessment as to the collectability of these receivables takes into account the current economic conditions in Russia and Ukraine, although we will continue to monitor the situation.

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Spirit AeroSystems

As of June 30, 2017 and December 31, 2016, Other assets included $143 of receivables related to indemnifications from Spirit AeroSystems, Inc. (Spirit) for costs incurred related to pension and retiree medical obligations of former Boeing employees who were subsequently employed by Spirit. During the fourth quarter of 2014, Boeing filed a complaint against Spirit in the Delaware Superior Court seeking to enforce our rights to indemnification and to recover from Spirit amounts incurred by Boeing for pension and retiree medical obligations. In the second quarter of 2017, the court ruled against Boeing and denied our claim. Boeing plans to appeal to the Delaware Supreme Court and we believe we have substantial arguments on appeal. We expect to fully recover from Spirit.

Note 8 – Commitments and Contingencies

Environmental

The following table summarizes environmental remediation activity during the six months ended June 30, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$562	$566
Reductions for payments made	(23)	(20)
Changes in estimates	(19)	44
Ending balance – June 30	$520	$590

The liabilities recorded represent our best estimate or the low end of a range of reasonably possible costs expected to be incurred to remediate sites, including operation and maintenance over periods of up to 30 years. It is reasonably possible that we may incur charges that exceed these recorded amounts because of regulatory agency orders and directives, changes in laws and/or regulations, higher than expected costs and/or the discovery of new or additional contamination. As part of our estimating process, we develop a range of reasonably possible alternate scenarios that includes the high end of a range of reasonably possible cost estimates for all remediation sites for which we have sufficient information based on our experience and existing laws and regulations. There are some potential remediation obligations where the costs of remediation cannot be reasonably estimated. At June 30, 2017 and December 31, 2016, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $852 and $857.

Product Warranties

The following table summarizes product warranty activity recorded during the six months ended June 30, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$1,414	$1,485
Additions for current year deliveries	126	195
Reductions for payments made	(125)	(185)
Changes in estimates	(109)	(84)
Ending balance – June 30	$1,306	$1,411

Commercial Aircraft Commitments

In conjunction with signing definitive agreements for the sale of new aircraft (Sale Aircraft), we have entered into trade-in commitments with certain customers that give them the right to trade in used aircraft at a specified price upon the purchase of Sale Aircraft. The probability that trade-in commitments will be exercised is determined by using both quantitative information from valuation sources and qualitative information from

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other sources. The probability of exercise is assessed quarterly, or as events trigger a change, and takes into consideration the current economic and airline industry environments. Trade-in commitments, which can be terminated by mutual consent with the customer, may be exercised only during the period specified in the agreement, and require advance notice by the customer.

Trade-in commitment agreements at June 30, 2017 have expiration dates from 2017 through 2026. At June 30, 2017, and December 31, 2016 total contractual trade-in commitments were $1,719 and $1,485. As of June 30, 2017 and December 31, 2016, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $107 and $126 and the fair value of the related trade-in aircraft was $107 and $126.

Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $13,467 and $14,847 as of June 30, 2017 and December 31, 2016. The estimated earliest potential funding dates for these commitments as of June 30, 2017 are as follows:

	Total
July through December 2017	$905
2018	3,542
2019	3,193
2020	1,772
2021	1,644
Thereafter	2,411
	$13,467

As of June 30, 2017, all of these financing commitments related to customers we believe have less than investment-grade credit. We have concluded that no reserve for future potential losses is required for these financing commitments based upon the terms, such as collateralization and interest rates, under which funding would be provided.

Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately $3,858 and $4,701 as of June 30, 2017 and December 31, 2016.

Commitments to ULA

We and Lockheed Martin Corporation have each committed to provide ULA with additional capital contributions in the event ULA does not have sufficient funds to make a required payment to us under an inventory supply agreement. As of June 30, 2017, ULA’s total remaining obligation to Boeing under the inventory supply agreement was $120. See Note 4.

F/A-18

At June 30, 2017, our backlog included 23 F/A-18 aircraft under contract with the U.S. Navy. We have begun work or authorized suppliers to begin working on aircraft beyond those already in backlog in anticipation of future orders. At June 30, 2017, we had $91 of capitalized precontract costs and $999 of potential termination liabilities to suppliers associated with F/A-18 aircraft not yet on order.

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United States Government Defense Environment Overview

In May 2017, the U.S. administration submitted its fiscal year 2018 budget request, which calls for funding the U.S. Department of Defense (U.S. DoD) base budget at a level that is $52 billion or 10% above the spending caps in the Budget Control Act of 2011 (The Act). However, The Act, which mandates limits on U.S. government discretionary spending, remains in effect through fiscal year 2021. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless The Act is repealed or significantly modified by Congress.

In addition, there continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA), within the overall budgetary framework described above. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company’s operations, financial position and/or cash flows.

Funding timeliness also remains a risk. If Congress is unable to pass appropriations bills before the beginning of the next fiscal year on October 1, 2017, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders. Alternatively, Congress may fund fiscal year 2018 by passing one or more Continuing Resolutions; however, this could restrict the execution of certain program activities and delay new programs or competitions.

BDS Fixed-Price Development Contracts

Fixed-price development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work. BDS fixed-price contracts with significant development work include Commercial Crew, U.S. Air Force (USAF) KC-46A Tanker, and commercial and military satellites. The operational and technical complexities of these contracts create financial risk, which could trigger termination provisions, order cancellations or other financially significant exposure. Changes to cost and revenue estimates could result in lower margins or material charges for reach-forward losses. For example, in the first quarter of 2017, we recorded an additional reach-forward loss of $142 on the KC-46A Tanker program. Moreover, this and our other fixed-price development programs remain subject to additional reach-forward losses if we experience further technical or quality issues, schedule delays, or increased costs.

KC-46A Tanker

In 2011, we were awarded a contract from the USAF to design, develop, manufacture and deliver four next generation aerial refueling tankers. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. In 2016, the USAF authorized low rate initial production (LRIP) lots for 7 and 12 aircraft valued at $2.8 billion. In January 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. At June 30, 2017, we had approximately $298 of capitalized precontract costs and $525 of potential termination liabilities to suppliers.

Recoverable Costs on Government Contracts

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

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Russia/Ukraine

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

747 Program

Lower-than-expected demand for large commercial passenger and freighter aircraft have continued to drive market uncertainties, pricing pressures and fewer orders than anticipated. We are currently producing at a rate of 0.5 aircraft per month. The program accounting quantity includes aircraft scheduled to be produced through 2019. We continue to have a number of completed aircraft in inventory and we remain focused on obtaining additional orders and implementing cost-reduction efforts. We are currently evaluating several scenarios, including sales campaigns, that may determine how long we continue the 747 program. If we are unable to obtain sufficient orders and/or market, production and other risks cannot be mitigated, we could record additional losses that may be material. Depending on market conditions, it is reasonably possible that we could decide to end production of the 747.

787 Program

The 787 program continued to have near breakeven gross margins. The combination of production challenges, change incorporation on early build aircraft, schedule delays, customer and supplier impacts and changes to price escalation factors has created significant pressure on program profitability. We are continuing to monitor wide-body demand and if sufficient orders do not materialize, we may consider appropriate adjustments to planned production rates. If risks related to these challenges, together with risks associated with planned production rates and productivity improvements, supply chain management, or introducing or manufacturing the 787-10 derivative as scheduled cannot be mitigated, the program could record a reach-forward loss that may be material.

Note 9 – Arrangements with Off-Balance Sheet Risk

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

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

	Maximum Potential Payments		Estimated Proceeds from Collateral/Recourse		Carrying Amount of Liabilities	
	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016
Contingent repurchase commitments	$1,374	$1,306	$1,374	$1,306	$10	$9
Indemnifications to ULA:						
Contributed Delta program launch inventory	72	77				
Contract pricing	261	261			7	7
Other Delta contracts	196	216			5	5
Credit guarantees	111	29	79	27	7	2

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

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proceeds from collateral/recourse in the table above represent the lower of the contracted repurchase price or the expected fair value of each aircraft at the specified repurchase date.

Indemnifications to ULA In 2006, we agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of $1,360 of Boeing Delta launch program inventory included in contributed assets plus $1,860 of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed $1,288 of the $1,360 of inventory that was contributed by us and has yet to consume $72. Under the inventory supply agreement, we have recorded revenues and cost of sales of $1,500 through June 30, 2017. ULA has made payments of $1,740 to us under the inventory supply agreement and we have made $48 of net indemnification payments to ULA.

We agreed to indemnify ULA against potential losses that ULA may incur in the event ULA is unable to obtain certain additional contract pricing from the USAF for four satellite missions. In 2009, ULA filed a complaint before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of two of these missions, followed in 2011 by a subsequent notice of appeal with respect to a third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. During the second quarter of 2016, the ASBCA ruled that ULA is entitled to additional contract pricing for each of the three missions and remanded to the parties to negotiate appropriate pricing. During the fourth quarter of 2016, the USAF appealed the ASBCA's ruling. In April 2017, the USAF withdrew its appeal. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for an indemnification payment up to $261 and may record up to $277 in pre-tax losses associated with the three missions.

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

Other Indemnifications In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our BCA facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. We are unable to assess the potential number of future claims that may be asserted under these indemnifications, nor the amounts thereof (if any). As a result, we cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded. To the extent that claims have been made under these indemnities and/or are probable and reasonably estimable, liabilities associated with these indemnities are included in the environmental liability disclosure in Note 8.

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

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Note 10 – Debt

On February 16, 2017, we issued $900 of fixed rate senior notes consisting of $300 due March 1, 2022 that bear an annual interest rate of 2.125%, $300 due March 1, 2027 that bear an annual interest rate of 2.8%, and $300 due March 1, 2047 that bear an annual interest rate of 3.65%. The notes are unsecured senior obligations and rank equally in right of payment with our existing and future unsecured and unsubordinated indebtedness. The net proceeds of the issuance totaled $872, after deducting underwriting discounts, commissions and offering expenses.

Note 11 – Postretirement Plans

The components of net periodic benefit cost were as follows:

	Six months ended June 30		Three months ended June 30	
Pension Plans	2017	2016	2017	2016
Service cost	$201	$326	$100	$163
Interest cost	1,496	1,526	748	762
Expected return on plan assets	(1,922)	(1,998)	(961)	(999)
Amortization of prior service (credits)/costs	(20)	20	(10)	10
Recognized net actuarial loss	402	394	201	197
Settlement/curtailment/other losses	1	33		18
Net periodic benefit cost	$158	$301	$78	$151
Net periodic benefit cost included in Earnings from operations	$434	$1,092	$100	$463

	Six months ended June 30		Three months ended June 30	
Other Postretirement Benefits	2017	2016	2017	2016
Service cost	$53	$64	$27	$32
Interest cost	114	130	57	65
Expected return on plan assets	(4)	(4)	(2)	(2)
Amortization of prior service credits	(68)	(62)	(34)	(31)
Recognized net actuarial loss	6	12	3	6
Net periodic benefit cost	$101	$140	$51	$70
Net periodic benefit cost included in Earnings from operations	$143	$150	$58	$62

Required pension contributions under the Employee Retirement Income Security Act, as well as rules governing funding of our non-US pension plans, are expected to be minimal in 2017. We plan to make contributions to our pension plans during the third quarter of $500 in cash and $3,500 in Boeing common stock. These contributions would exceed our previously announced plan to contribute approximately $500 to our pension plans in 2017.

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Note 12 – Share-Based Compensation and Other Compensation Arrangements

Restricted Stock Units

On February 27, 2017, we granted to our executives 523,835 restricted stock units (RSUs) as part of our long-term incentive program with a grant date fair value of $178.72 per unit. The RSUs granted under this program will vest and settle in common stock (on a one-for-one basis) on the third anniversary of the grant date.

Performance-Based Restricted Stock Units

On February 27, 2017, we granted to our executives 492,273 performance-based restricted stock units (PBRSUs) as part of our long-term incentive program with a grant date fair value of $190.17 per unit. Compensation expense for the award is recognized over the three-year performance period based upon the grant date fair value estimated using a Monte-Carlo simulation model. The model used the following assumptions: expected volatility of 21.37% based upon historical stock volatility, a risk-free interest rate of 1.46%, and no expected dividend yield because the units earn dividend equivalents.

Performance Awards

On February 27, 2017, we granted to our executives performance awards as part of our long-term incentive program with a payout based on the achievement of financial goals for the three-year period ending December 31, 2019. At June 30, 2017, the minimum payout amount is $0 and the maximum amount we could be required to pay out is $360.

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Note 13 – Shareholders' Equity

Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive loss (AOCI) by component for the six and three months ended June 30, 2017 and 2016 were as follows:

	Currency Translation Adjustments	Unrealized Gains and Losses on Certain Investments	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans & Other Postretirement Benefits	Total [1]
Balance at January 1, 2016	($39)		($197)	($12,512)	($12,748)
Other comprehensive income/(loss) before reclassifications	7	(1)	41	(385)	(338)
Amounts reclassified from AOCI			43	248 [2]	291
Net current period Other comprehensive income/(loss)	7	(1)	84	(137)	(47)
Balance at June 30, 2016	($32)	($1)	($113)	($12,649)	($12,795)
Balance at January 1, 2017	($143)	($2)	($127)	($13,351)	($13,623)
Other comprehensive income before reclassifications	77		71	1	149
Amounts reclassified from AOCI			34	206 [2]	240
Net current period Other comprehensive income	77		105	207	389
Balance at June 30, 2017	($66)	($2)	($22)	($13,144)	($13,234)
Balance at March 31, 2016	($16)	($2)	($116)	($12,704)	($12,838)
Other comprehensive (loss)/income before reclassifications	(16)	1	(17)	(65)	(97)
Amounts reclassified from AOCI			20	120 [2]	140
Net current period Other comprehensive income	(16)	1	3	55	43
Balance at June 30, 2016	($32)	($1)	($113)	($12,649)	($12,795)
Balance at March 31, 2017	($109)	($1)	($59)	($13,246)	($13,415)
Other comprehensive income/(loss) before reclassifications	43	(1)	19		61
Amounts reclassified from AOCI			18	102 [2]	120
Net current period Other comprehensive income/(loss)	43	(1)	37	102	181
Balance at June 30, 2017	($66)	($2)	($22)	($13,144)	($13,234)

(1) Net of tax.

(2) Primarily relates to amortization of actuarial losses for the six and three months ended June 30, 2016 totaling $261 and $130 (net of tax of ($145) and ($73)) and for the six and three months ended June 30, 2017 totaling $263 and $131 (net of tax of ($145) and ($73)). These are included in the net periodic pension cost of which a portion is allocated to production as inventoried costs. See Note 17.

Note 14 – Derivative Financial Instruments

Cash Flow Hedges

Our cash flow hedges include foreign currency forward contracts and commodity purchase contracts. We use foreign currency forward contracts to manage currency risk associated with certain transactions, specifically forecasted sales and purchases made in foreign currencies. Our foreign currency contracts hedge

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forecasted transactions through 2023. We use commodity derivatives, such as fixed-price purchase commitments to hedge against potentially unfavorable price changes for items used in production. Our commodity contracts hedge forecasted transactions through 2020.

Fair Value Hedges

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

Derivative Instruments Not Receiving Hedge Accounting Treatment

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

Notional Amounts and Fair Values

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

	Notional amounts [1]		Other assets		Accrued liabilities	
	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016
Derivatives designated as hedging instruments:						
Foreign exchange contracts	$2,647	$2,584	$83	$34	($102)	($225)
Interest rate contracts	125	125	5	6		
Commodity contracts	19	53	3	7	(5)	(5)
Derivatives not receiving hedge accounting treatment:						
Foreign exchange contracts	487	465	20	21	(15)	(17)
Commodity contracts	615	648				
Total derivatives	$3,893	$3,875	111	68	(122)	(247)
Netting arrangements			(57)	(45)	57	45
Net recorded balance			$54	$23	($65)	($202)

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

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

	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Effective portion recognized in Other comprehensive income/(loss), net of taxes:				
Foreign exchange contracts	$76	$41	$20	($21)
Commodity contracts	(5)		(1)	4
Effective portion reclassified out of Accumulated other comprehensive loss into earnings, net of taxes:				
Foreign exchange contracts	(32)	(38)	(17)	(17)
Commodity contracts	(2)	(5)	(1)	(3)
Forward points recognized in Other income, net:				
Foreign exchange contracts	2	4	1	2
Undesignated derivatives recognized in Other income, net:				
Foreign exchange contracts	5			(2)

Based on our portfolio of cash flow hedges, we expect to reclassify losses of $42 (pre-tax) out of Accumulated other comprehensive loss into earnings during the next 12 months. Ineffectiveness related to our hedges recognized in Other income was insignificant for the six and three months ended June 30, 2017 and 2016.

We have derivative instruments with credit-risk-related contingent features. For foreign exchange contracts with original maturities of at least five years, our derivative counterparties could require settlement if we default on our five-year credit facility. For certain commodity contracts, our counterparties could require collateral posted in an amount determined by our credit ratings. The fair value of foreign exchange and commodity contracts that have credit-risk-related contingent features that are in a net liability position at June 30, 2017 was $27. At June 30, 2017, there was no collateral posted related to our derivatives.

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Note 15 – Fair Value Measurements

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

	June 30, 2017			December 31, 2016		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets						
Money market funds	$2,016	$2,016		$2,858	$2,858	
Available-for-sale investments:						
Commercial paper	97		$97	162		$162
Corporate notes	341		341	271		271
U.S. government agencies	61		61	63		63
Other	29	29		46	46	
Derivatives	54		54	23		23
Total assets	$2,598	$2,045	$553	$3,423	$2,904	$519
Liabilities						
Derivatives	($65)		($65)	($202)		($202)
Total liabilities	($65)		($65)	($202)		($202)

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

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

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

	2017		2016	
	Fair Value	Total Losses	Fair Value	Total Losses
Investments	$1	$(27)		
Operating lease equipment	65	(16)	59	(25)
Property, plant and equipment	8	(2)		(4)
Acquired intangible assets	14	(1)	12	(10)
Total	$88	($46)	$71	($39)

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

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

For Level 3 assets that were measured at fair value on a nonrecurring basis during the six months ended June 30, 2017, the following table presents the fair value of those assets as of the measurement date, valuation techniques and related unobservable inputs of those assets.

	Fair Value	Valuation Technique(s)	Unobservable Input	Range Median or Average
Operating lease equipment	$65	Market approach	Aircraft value publications	$106 - $140[1] Median $125
			Aircraft condition adjustments	($60) - $0[2] Net ($60)

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

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

Fair Value Disclosures

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

	June 30, 2017				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$884	$ 895		$ 895	
Liabilities					
Debt, excluding capital lease obligations	(10,641)	(12,196)		(12,095)	(101)
	December 31, 2016				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$807	$ 803		$ 803	
Liabilities					
Debt, excluding capital lease obligations	(9,815)	(11,209)		(11,078)	(131)

The fair values of notes receivable are estimated with discounted cash flow analysis using interest rates currently offered on loans with similar terms to borrowers of similar credit quality. The fair value of our debt that is traded in the secondary market is classified as Level 2 and is based on current market yields. For our debt that is not traded in the secondary market, the fair value is classified as Level 2 and is based on our indicative borrowing cost derived from dealer quotes or discounted cash flows. The fair values of our debt classified as Level 3 are based on discounted cash flow models using the implied yield from similar securities. With regard to other financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of our indemnifications and financing commitments because the amount and timing of those arrangements are uncertain. Items not included in the above disclosures include cash, restricted cash, time deposits and other deposits, commercial paper, money market funds, Accounts receivable, Accounts payable and long-term payables. The carrying values of those items, as reflected in the Condensed Consolidated Statements of Financial Position, approximate their fair value at June 30, 2017 and December 31, 2016. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

Note 16 – Legal Proceedings

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

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

Note 17 – Segment Information

Our primary profitability measurements to review a segment's operating results are Earnings from operations and operating margins. See page 6 for a Summary of Business Segment Data, which is an integral part of this note.

In November 2016, we announced plans for the formation of Boeing Global Services (BGS), which brings together certain Commercial Aviation Services businesses, currently included in BCA, and certain BDS businesses (primarily those currently included in the Global Services & Support segment). Boeing Global Services became operational on July 1, 2017. Beginning in the third quarter of 2017, we expect to have discrete financial information and plan to report results using the new segment structure of four principal segments: BCA, BDS, BGS, and BCC.

Intersegment revenues, eliminated in Unallocated items, eliminations and other, are shown in the following table.

	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Commercial Airplanes	$959	$777	$362	$349
Boeing Capital	10	9	5	4
Total	$969	$786	$367	$353

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Unallocated Items, Eliminations and other

Unallocated items, eliminations and other includes costs not attributable to business segments as well as intercompany profit eliminations. We generally allocate costs to business segments based on the U.S. federal cost accounting standards. Components of Unallocated items, eliminations and other are shown in the following table.

	Six months ended June 30		Three months ended June 30	
	2017	2016	2017	2016
Share-based plans	($46)	($41)	($25)	($18)
Deferred compensation	(96)	(5)	(46)	(21)
Amortization of previously capitalized interest	(51)	(48)	(20)	(18)
Eliminations and other unallocated items	(359)	(198)	(179)	(69)
Sub-total	(552)	(292)	(270)	(126)
Pension	533	79	278	34
Postretirement	105	84	45	35
Pension and Postretirement	638	163	323	69
Total	$86	($129)	$53	($57)

Unallocated Pension and Other Postretirement Benefit Expense

Unallocated pension and other postretirement benefit expense represent the portion of pension and other postretirement benefit costs that are not recognized by business segments for segment reporting purposes. Pension costs, comprising GAAP service and prior service costs, are allocated to BCA. Pension costs are allocated to BDS using U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. These costs are allocable to government contracts. Other postretirement benefit costs are allocated to business segments based on CAS, which is generally based on benefits paid.

Assets

Segment assets are summarized in the table below:

	June 30 2017	December 31 2016
Commercial Airplanes	$55,357	$55,527
Defense, Space & Security:		
Boeing Military Aircraft	6,815	6,698
Network & Space Systems	6,348	6,113
Global Services & Support	4,428	4,020
Total Defense, Space & Security	17,591	16,831
Boeing Capital	3,903	4,139
Unallocated items, eliminations and other	13,185	13,500
Total	$90,036	$89,997

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial position of The Boeing Company and subsidiaries (the "Company") as of June 30, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016 and the related condensed consolidated statements of cash flows and equity for the six-month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of the Company as of December 31, 2016, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated February 8, 2017, we expressed an unqualified opinion on those consolida