BOEING CO
Form 10-Q
October 22, 2014

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 September 30, 2014
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, 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. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ý | 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 ý

As of October 15, 2014, there were 712,930,459 shares of common stock, $5.00 par value, issued and outstanding.

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THE BOEING COMPANY
FORM 10-Q
For the Quarter Ended September 30, 2014
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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) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Sales of products | $58,920 | $55,310 | $21,378 | $19,754 |
| Sales of services | 7,374 | 7,528 | 2,406 | 2,376 |
| Total revenues | 66,294 | 62,838 | 23,784 | 22,130 |
| | | | | |
| Cost of products | (50,023) | (47,030) | (18,091) | (16,865) |
| Cost of services | (5,965) | (5,795) | (1,966) | (1,791) |
| Boeing Capital interest expense | (53) | (55) | (18) | (18) |
| Total costs and expenses | (56,041) | (52,880) | (20,075) | (18,674) |
| | 10,253 | 9,958 | 3,709 | 3,456 |
| Income from operating investments, net | 212 | 147 | 92 | 59 |
| General and administrative expense | (2,727) | (2,856) | (932) | (956) |
| Research and development expense, net | (2,292) | (2,223) | (750) | (755) |
| Gain/(loss) on dispositions, net | 2 | 21 | | (1) |
| Earnings from operations | 5,448 | 5,047 | 2,119 | 1,803 |
| Other income/(loss), net | 11 | 41 | (9) | 19 |
| Interest and debt expense | (252) | (290) | (79) | (95) |
| Earnings before income taxes | 5,207 | 4,798 | 2,031 | 1,727 |
| Income tax expense | (1,227) | (1,445) | (669) | (567) |
| Net earnings from continuing operations | 3,980 | 3,353 | 1,362 | 1,160 |
| Net loss on disposal of discontinued operations, net of taxes of $0, $0, $0 and $0 | | (1) | | (2) |
| Net earnings | $3,980 | $3,352 | $1,362 | $1,158 |
| Basic earnings per share from continuing operations | $5.43 | $4.40 | $1.88 | $1.53 |
| Net loss on disposal of discontinued operations, net of taxes | | | | |
| Basic earnings per share | $5.43 | $4.40 | $1.88 | $1.53 |
| Diluted earnings per share from continuing operations | $5.36 | $4.36 | $1.86 | $1.51 |
| Net loss on disposal of discontinued operations, net of taxes | | | | |
| Diluted earnings per share | $5.36 | $4.36 | $1.86 | $1.51 |
| Cash dividends paid per share | $2.19 | $1.455 | $0.73 | $0.485 |
| Weighted average diluted shares (millions) | 742.3 | 769.8 | 731.9 | 769.1 |

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) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net earnings | $3,980 | $3,352 | $1,362 | $1,158 |
| Other comprehensive income, net of tax: | | | | |
| Currency translation adjustments | (34) | (46) | (72) | 42 |
| Unrealized gain/(loss) on certain investments, net of tax ($1), $0, $1, $0 | 2 | | (1) | |
| Unrealized (loss)/gain on derivative instruments: | | | | |
| Unrealized (loss)/gain arising during period, net of tax of $36, $31, $50 and ($20) | (64) | (54) | (89) | 35 |
| Reclassification adjustment for (gains) included in net earnings, net of tax of $1, $8, $1 and $5 | (2) | (13) | (3) | (10) |
| Total unrealized (loss)/gain on derivative instruments, net of tax | (66) | (67) | (92) | 25 |
| Defined benefit pension plans and other postretirement benefits: | | | | |
| Amortization of prior service cost included in net periodic pension cost, net of tax of ($9), ($6), ($3) and ($3) | 16 | 9 | 5 | 4 |
| Net actuarial gain arising during the period, net of tax of ($348), ($72), ($1) and ($56) | 623 | 131 | 1 | 101 |
| Amortization of actuarial losses included in net periodic pension cost, net of tax of ($275), ($644), ($90) and ($213) | 498 | 1,135 | 165 | 380 |
| Settlements and curtailments included in net income, net of tax of ($113), ($35), $0 and ($30) | 202 | 63 | | 54 |
| Pension and postretirement benefit related to our equity method investments, net of tax $0 ($2), $0 and ($1) | | 4 | | 1 |
| Total defined benefit pension plans and other postretirement benefits, net of tax | 1,339 | 1,342 | 171 | 540 |
| Other comprehensive income, net of tax | 1,241 | 1,229 | 6 | 607 |
| Comprehensive income/(loss) related to noncontrolling interests | 9 | 3 | 3 | (18) |
| Comprehensive income, net of tax | $5,230 | $4,584 | $1,371 | $1,747 |

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) | September 30 2014 | December 31 2013 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $6,655 | $9,088 |
| Short-term and other investments | 3,422 | 6,170 |
| Accounts receivable, net | 7,799 | 6,546 |
| Current portion of customer financing, net | 257 | 344 |
| Deferred income taxes | 27 | 14 |
| Inventories, net of advances and progress billings | 47,058 | 42,912 |
| Total current assets | 65,218 | 65,074 |
| Customer financing, net | 3,347 | 3,627 |
| Property, plant and equipment, net of accumulated depreciation of $15,645 and $15,070 | 10,707 | 10,224 |
| Goodwill | 5,131 | 5,043 |
| Acquired intangible assets, net | 2,954 | 3,052 |
| Deferred income taxes | 2,546 | 2,939 |
| Investments | 1,203 | 1,204 |
| Other assets, net of accumulated amortization of $447 and $448 | 1,547 | 1,500 |
| Total assets | $92,653 | $92,663 |
| Liabilities and equity | | |
| Accounts payable | $11,136 | $9,498 |
| Accrued liabilities | 12,677 | 14,131 |
| Advances and billings in excess of related costs | 21,127 | 20,027 |
| Deferred income taxes and income taxes payable | 6,685 | 6,267 |
| Short-term debt and current portion of long-term debt | 1,579 | 1,563 |
| Total current liabilities | 53,204 | 51,486 |
| Accrued retiree health care | 6,494 | 6,528 |
| Accrued pension plan liability, net | 9,262 | 10,474 |
| Non-current income taxes payable | 709 | 156 |
| Other long-term liabilities | 1,046 | 950 |
| Long-term debt | 7,301 | 8,072 |
| Shareholders' equity: | | |
| Common stock, par value $5.00 – 1,200,000,000 shares authorized; 1,012,261,159 and 1,012,261,159 shares issued | 5,061 | 5,061 |
| Additional paid-in capital | 4,572 | 4,415 |
| Treasury stock, at cost – 298,419,764 and 264,882,461 shares | (22,349) | (17,671) |
| Retained earnings | 35,880 | 32,964 |
| Accumulated other comprehensive loss | (8,653) | (9,894) |
| Total shareholders' equity | 14,511 | 14,875 |
| Noncontrolling interests | 126 | 122 |
| Total equity | 14,637 | 14,997 |
| Total liabilities and equity | $92,653 | $92,663 |

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) | Nine months ended September 30 2014 | 2013 |
|---|---|---|
| Cash flows – operating activities: | | |
| Net earnings | $3,980 | $3,352 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Non-cash items – | | |
| Share-based plans expense | 152 | 156 |
| Depreciation and amortization | 1,378 | 1,323 |
| Investment/asset impairment charges, net | 140 | 38 |
| Customer financing valuation benefit | (26) | (7) |
| Loss on disposal of discontinued operations | | 1 |
| Gain on dispositions, net | (2) | (21) |
| Other charges and credits, net | 145 | 48 |
| Excess tax benefits from share-based payment arrangements | (104) | (86) |
| Changes in assets and liabilities – | | |
| Accounts receivable | (1,385) | (1,006) |
| Inventories, net of advances and progress billings | (4,425) | (3,631) |
| Accounts payable | 1,819 | 943 |
| Accrued liabilities | (1,054) | (338) |
| Advances and billings in excess of related costs | 1,100 | 3,543 |
| Income taxes receivable, payable and deferred | 887 | 1,336 |
| Other long-term liabilities | (42) | (52) |
| Pension and other postretirement plans | 746 | 954 |
| Customer financing, net | 494 | 223 |
| Other | 57 | 23 |
| Net cash provided by operating activities | 3,860 | 6,799 |
| Cash flows – investing activities: | | |
| Property, plant and equipment additions | (1,568) | (1,460) |
| Property, plant and equipment reductions | 27 | 47 |
| Acquisitions, net of cash acquired | (163) | (26) |
| Contributions to investments | (7,874) | (9,640) |
| Proceeds from investments | 10,608 | 6,997 |
| Receipt of economic development program funds | 4 | |
| Net cash provided/(used) by investing activities | 1,034 | (4,082) |
| Cash flows – financing activities: | | |
| New borrowings | 105 | 547 |
| Debt repayments | (910) | (1,397) |
| Payments to noncontrolling interests | (12) | |
| Repayments of distribution rights and other asset financing | (184) | (139) |
| Stock options exercised, other | 293 | 871 |
| Excess tax benefits from share-based payment arrangements | 104 | 86 |
| Employee taxes on certain share-based payment arrangements | (94) | (60) |
| Common shares repurchased | (5,000) | (1,799) |
| Dividends paid | (1,596) | (1,102) |
| Net cash used by financing activities | (7,294) | (2,993) |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (33) | (24) |
| Net decrease in cash and cash equivalents | (2,433) | (300) |
| Cash and cash equivalents at beginning of year | 9,088 | 10,341 |
| Cash and cash equivalents at end of period | $6,655 | $10,041 |

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, 2013 | $5,061 | $4,122 | ($15,937) | $30,037 | ($17,416) | $100 | $5,967 |
| Net earnings | | | | 3,352 | | 3 | 3,355 |
| Other comprehensive income, net of tax of ($720) | | | | | 1,229 | | 1,229 |
| Share-based compensation and related dividend equivalents | | 161 | | (7) | | | 154 |
| Excess tax pools | | 60 | | | | | 60 |
| Treasury shares issued for stock options exercised, net | | 80 | 793 | | | | 873 |
| Treasury shares issued for other share-based plans, net | | (128) | 78 | | | | (50) |
| Common shares repurchased | | | (1,799) | | | | (1,799) |
| Cash dividends declared ($0.97 per share) | | | | (735) | | | (735) |
| Changes in noncontrolling interests | | | | | | 13 | 13 |
| Balance at September 30, 2013 | $5,061 | $4,295 | ($16,865) | $32,647 | ($16,187) | $116 | $9,067 |
| | | | | | | | |
| Balance at January 1, 2014 | $5,061 | $4,415 | ($17,671) | $32,964 | ($9,894) | $122 | $14,997 |
| Net earnings | | | | 3,980 | | 9 | 3,989 |
| Other comprehensive income, net of tax of ($709) | | | | | 1,241 | | 1,241 |
| Share-based compensation and related dividend equivalents | | 159 | | (10) | | | 149 |
| Excess tax pools | | 104 | | | | | 104 |
| Treasury shares issued for stock options exercised, net | | 18 | 276 | | | | 294 |
| Treasury shares issued for other share-based plans, net | | (124) | 46 | | | | (78) |
| Common shares repurchased | | | (5,000) | | | | (5,000) |
| Cash dividends declared ($1.46 per share) | | | | (1,054) | | | (1,054) |
| Changes in noncontrolling interests | | | | | | (5) | (5) |
| Balance at September 30, 2014 | $5,061 | $4,572 | ($22,349) | $35,880 | ($8,653) | $126 | $14,637 |

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) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Commercial Airplanes | $43,151 | $38,301 | $16,110 | $13,987 |
| Defense, Space & Security: | | | | |
| Boeing Military Aircraft | 10,518 | 11,059 | 3,537 | 3,438 |
| Network & Space Systems | 5,823 | 6,240 | 2,027 | 2,231 |
| Global Services & Support | 6,952 | 7,043 | 2,349 | 2,377 |
| Total Defense, Space & Security | 23,293 | 24,342 | 7,913 | 8,046 |
| Boeing Capital | 263 | 303 | 91 | 94 |
| Unallocated items, eliminations and other | (413) | (108) | (330) | 3 |
| Total revenues | $66,294 | $62,838 | $23,784 | $22,130 |
| Earnings from operations: | | | | |
| Commercial Airplanes | $4,849 | $4,289 | $1,797 | $1,617 |
| Defense, Space & Security: | | | | |
| Boeing Military Aircraft | 937 | 1,058 | 440 | 245 |
| Network & Space Systems | 507 | 486 | 189 | 193 |
| Global Services & Support | 772 | 737 | 227 | 235 |
| Total Defense, Space & Security | 2,216 | 2,281 | 856 | 673 |
| Boeing Capital | 66 | 98 | (11) | 35 |
| Unallocated items, eliminations and other | (1,683) | (1,621) | (523) | (522) |
| Earnings from operations | 5,448 | 5,047 | 2,119 | 1,803 |
| Other income/(loss), net | 11 | 41 | (9) | 19 |
| Interest and debt expense | (252) | (290) | (79) | (95) |
| Earnings before income taxes | 5,207 | 4,798 | 2,031 | 1,727 |
| Income tax expense | (1,227) | (1,445) | (669) | (567) |
| Net earnings from continuing operations | 3,980 | 3,353 | 1,362 | 1,160 |
| Net loss on disposal of discontinued operations, net of taxes of $0, $0, $0 and $0 | | (1) | | (2) |
| Net earnings | $3,980 | $3,352 | $1,362 | $1,158 |

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 September 30, 2014 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 2013 Annual Report on Form 10-K. Effective during the first quarter of 2014, certain programs previously reported in the Boeing Military Aircraft (BMA) segment were realigned to the Global Services & Support (GS&S) segment. See Note 17. Beginning in the third quarter of 2014, amounts previously reported separately as Other segment and Unallocated items and eliminations are now shown on a combined basis to provide a more meaningful presentation. Segment data for 2013 have been adjusted to reflect these changes.

Standards Issued and Not Yet Implemented

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. For Boeing the new standard will be effective January 1, 2017 and the Company is currently evaluating the impacts of adoption and the implementation approach to be used.

Use of Estimates

Management makes assumptions and estimates to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Those assumptions and estimates directly affect the amounts reported in the 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 Defense, Space & Security (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. In the second quarter of 2014, higher estimated costs to complete the KC-46A Tanker contract for the U.S. Air Force resulted in a reach-forward loss of $425 of which the Commercial Airplanes segment recorded $238 and the BMA segment recorded $187. For the nine months ended September 30, 2014, net unfavorable cumulative catch-up adjustments, including reach-forward losses, across all contracts decreased Earnings from operations by $54 and diluted earnings per share by $0.06. For the three months ended September 30, 2014, net favorable cumulative catch-up adjustments, including reach-forward losses, across all contracts increased Earnings from operations by $91 and diluted earnings per share by $0.08. For the nine and three months ended September 30, 2013,

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net favorable cumulative catch-up adjustments, including reach-forward losses, across all contracts increased Earnings from operations by $184 and $20 and diluted earnings per share by $0.17 and $0.02.

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.

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

| (In millions - except per share amounts) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net earnings | $3,980 | $3,352 | $1,362 | $1,158 |
| Less: earnings available to participating securities | 5 | 6 | 2 | 2 |
| Net earnings available to common shareholders | $3,975 | $3,346 | $1,360 | $1,156 |
| Basic | | | | |
| Basic weighted average shares outstanding | 733.3 | 762.0 | 722.8 | 759.4 |
| Less: participating securities | 1.3 | 1.9 | 1.3 | 1.8 |
| Basic weighted average common shares outstanding | 732.0 | 760.1 | 721.5 | 757.6 |
| Diluted | | | | |
| Basic weighted average shares outstanding | 733.3 | 762.0 | 722.8 | 759.4 |
| Dilutive potential common shares(1) | 9.0 | 7.8 | 9.1 | 9.7 |
| Diluted weighted average shares outstanding | 742.3 | 769.8 | 731.9 | 769.1 |
| Less: participating securities | 1.3 | 1.9 | 1.3 | 1.8 |
| Diluted weighted average common shares outstanding | 741.0 | 767.9 | 730.6 | 767.3 |
| Net earnings per share: | | | | |
| Basic | $5.43 | $4.40 | $1.88 | $1.53 |
| Diluted | 5.36 | 4.36 | 1.86 | 1.51 |

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

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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) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Stock options | | 6.4 | | |
| Performance awards | 5.3 | 4.6 | 4.6 | 3.6 |
| Performance-based restricted stock units | 1.3 | | 1.3 | |

Note 3 – Income Taxes

Our effective income tax rates were 23.6% and 32.9% for the nine and three months ended September 30, 2014 and 30.1% and 32.8% for the same periods in the prior year. The effective tax rate for the nine months ended September 30, 2014 is lower than the comparable prior year period primarily due to an incremental tax benefit of $265 recorded in the second quarter of 2014 that related to the application of a 2012 Federal Court of Claims decision which held that the tax basis in certain assets could be increased and realized upon the assets' disposition (tax basis adjustment). In addition, during the second quarter of 2014, tax benefits of $116 and $143 were recorded as a result of the 2007-2008 and 2009-2010 federal tax audit settlements. These benefits are partially offset by the absence of the U.S. research and development tax credit (research tax credit). The research tax credit was effective for 2013, but due to the expiration at the end of 2013, no tax benefit has been recorded in 2014. Furthermore, in the first quarter of 2013, Congress retroactively reinstated the research tax credit for 2012, which reduced income tax expense by $145. If Congress extends the research tax credit for 2014, there will be a favorable impact on our effective income tax rate.

The total amount of unrecognized tax benefits increased from $1,141 as of December 31, 2013 to $1,526 as of September 30, 2014 primarily due to the tax basis adjustment, partially offset by the settlement of the 2007-2008 and 2009-2010 federal tax audits.

Federal income tax audits have been settled for all years prior to 2011. The years 2011-2012 are currently being examined by the IRS. We are also subject to examination in major state and international jurisdictions for the 2001-2013 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

Note 4 – Accounts Receivable, net

Accounts receivable, net as of September 30, 2014, includes $112 of unbillable receivables on a long-term contract with LightSquared, LP (LightSquared) related to the construction of two commercial satellites. One of the satellites has been delivered, and the other is substantially complete but remains in Boeing's possession. On May 14, 2012, LightSquared filed for Chapter 11 bankruptcy protection. We believe that our rights in the second satellite and related ground-segment assets are sufficient to protect the value of our receivables in the event LightSquared fails to make payments as contractually required or rejects its contract with us. Given the uncertainties inherent in bankruptcy proceedings, it is reasonably possible that we could incur losses related to these receivables in connection with the LightSquared bankruptcy.

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Note 5 – Inventories

Inventories consisted of the following:

| | September 30 2014 | December 31 2013 |
|---|---|---|
| Long-term contracts in progress | $12,824 | $12,608 |
| Commercial aircraft programs | 54,886 | 48,065 |
| Commercial spare parts, used aircraft, general stock materials and other | 7,757 | 7,793 |
| Inventory before advances and progress billings | 75,467 | 68,466 |
| Less advances and progress billings | (28,409) | (25,554) |
| Total | $47,058 | $42,912 |

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. At September 30, 2014, the inventory balance was $261 (net of advances of $307) and $425 (net of advances of $331) at December 31, 2013. At September 30, 2014, $333 of this inventory related to unsold launches. See Note 10.

Capitalized precontract costs of $1,478 and $520 at September 30, 2014 and December 31, 2013, are included in inventories.

Commercial Aircraft Programs

At September 30, 2014 and December 31, 2013, commercial aircraft programs inventory included the following amounts related to the 787 program: $32,744 and $27,576 of work in process (including deferred production costs of $25,189 and $21,620), $2,216 and $2,189 of supplier advances, and $3,565 and $3,377 of unamortized tooling and other non-recurring costs. At September 30, 2014, $19,403 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 $9,351 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At September 30, 2014 and December 31, 2013, commercial aircraft programs inventory included the following amounts related to the 747 program: $1,859 and $1,554 of deferred production costs, net of previously recorded reach-forward losses, and $518 and $563 of unamortized tooling costs. At September 30, 2014, $1,113 of 747 deferred production and unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $1,264 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $3,213 and $3,465 at September 30, 2014 and December 31, 2013.

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Note 6 – Customer Financing

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

| | September 30 2014 | December 31 2013 |
|---|---|---|
| Financing receivables: | | |
| Investment in sales-type/finance leases | $1,575 | $1,699 |
| Notes | 436 | 587 |
| Operating lease equipment, at cost, less accumulated depreciation of $607 and $564 | 1,616 | 1,734 |
| Gross customer financing | 3,627 | 4,020 |
| Less allowance for losses on receivables | (23) | (49) |
| Total | $3,604 | $3,971 |

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 September 30, 2014 and December 31, 2013, we individually evaluated for impairment customer financing receivables of $92 and $95 and determined that none of these were impaired.

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 | September 30 2014 | December 31 2013 |
|---|---|---|
| BBB | $1,027 | $1,091 |
| BB | 51 | 58 |
| B | 671 | 585 |
| CCC | 170 | 457 |
| Other | 92 | 95 |
| Total carrying value of financing receivables | $2,011 | $2,286 |

At September 30, 2014, our allowance related to receivables with ratings of B and BBB to which we applied default rates that averaged 16% and 2% to the exposure associated with those receivables.

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Customer Financing Exposure

Customer financing is collateralized by security in the related asset. The value of the collateral is closely tied to commercial airline performance and overall market conditions and may be subject to reduced valuation with market decline. Declines in collateral values are also a significant driver of our allowance for losses. Generally, out-of-production aircraft have experienced greater collateral value declines than in-production aircraft. Our customer financing portfolio is primarily collateralized by out-of-production 717, 757 and MD-80 aircraft. The majority of customer financing carrying values are concentrated in the following aircraft models:

| | September 30 2014 | December 31 2013 |
|---|---|---|
| 717 Aircraft ($426 and $444 accounted for as operating leases) | $1,591 | $1,674 |
| 747 Aircraft ($461 and $183 accounted for as operating leases) | 461 | 286 |
| 757 Aircraft ($355 and $402 accounted for as operating leases) | 386 | 453 |
| MD-80 Aircraft (Accounted for as sales-type finance leases) | 370 | 411 |
| 737 Aircraft ($129 and $138 accounted for as operating leases) | 193 | 210 |
| MD-11 Aircraft (Accounted for as operating leases) | 183 | 220 |
| 767 Aircraft ($47 and $60 accounted for as operating leases) | 173 | 207 |
| 787 Aircraft (Accounted for as operating leases) | | 273 |

Note 7 – Investments

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

| | September 30 2014 | December 31 2013 |
|---|---|---|
| Time deposits | 3,351 | $6,090 |
| Pledged money market funds [1] | 46 | 46 |
| Available-for-sale investments | 9 | 8 |
| Equity method investments [2] | 1,161 | 1,164 |
| Restricted cash [3] | 25 | 33 |
| Other investments | 33 | 33 |
| Total | $4,625 | $7,374 |

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

(2) Dividends received were $215 and $81 for the nine and three months ended September 30, 2014 and $163 and $60 during the same periods in the prior year.

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

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## Note 8 – Other Assets

### Sea Launch

At September 30, 2014 and December 31, 2013, Other assets included $356 of receivables related to our former investment in the Sea Launch venture which became payable by certain Sea Launch partners following Sea Launch's bankruptcy filing in June 2009. The $356 includes $147 related to a payment made by us under a bank guarantee on behalf of Sea Launch and $209 related to loans (partner loans) we made to Sea Launch. The net amounts owed to Boeing by each of the partners are as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia – $223, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

Although each partner is contractually obligated to reimburse us for its share of the bank guarantee, the Russian and Ukrainian partners have raised defenses to enforcement and contested our claims. On October 19, 2009, we filed a Notice of Arbitration with the Stockholm Chamber of Commerce seeking reimbursement from the other Sea Launch partners of the $147 bank guarantee payment. On October 7, 2010, the arbitrator ruled that the Stockholm Chamber of Commerce lacked jurisdiction to hear the matter but did not resolve the merits of our claim. We filed a notice appealing the arbitrator's ruling on January 11, 2011. On April 11, 2014, the appellate court entered a ruling that the decision of the arbitrator is not appealable. On May 9, 2014, we filed a brief with the Supreme Court of Sweden appealing the appellate court's April 11, 2014 ruling. On February 1, 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners of the $147 bank guarantee payment and the $209 partner loan obligations. A trial in the United States District Court for the Central District of California is scheduled to commence April 21, 2015. We believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement of $147 related to our payment under the bank guarantee and $209 related to partner loans made to Sea Launch, we could incur additional pre-tax charges of up to $356. Our current assessment as to the collectability of these receivables takes into account the political unrest involving Russia and Ukraine, although we will continue to monitor the situation.

## Note 9 – Commitments and Contingencies

### Environmental

The following table summarizes environmental remediation activity during the nine months ended September 30, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Beginning balance – January 1 | $649 | $710 |
| Reductions for payments made | (36) | (69) |
| Changes in estimates | 25 | 48 |
| Ending balance – September 30 | $638 | $689 |

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 September 30, 2014 and December 31, 2013, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $884 and $928.

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Product Warranties

The following table summarizes product warranty activity recorded during the nine months ended September 30, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Beginning balance – January 1 | $1,570 | $1,572 |
| Additions for current year deliveries | 416 | 427 |
| Reductions for payments made | (336) | (326) |
| Changes in estimates | (167) | (110) |
| Ending balance - September 30 | $1,483 | $1,563 |

Commercial Aircraft Commitments

In conjunction with signing definitive agreements for the sale of new aircraft (Sale Aircraft), we have entered into trade-in commitments with certain customers that give them the right to trade in used aircraft at a specified price upon the purchase of Sale Aircraft. The probability that trade-in commitments will be exercised is determined by using both quantitative information from valuation sources and qualitative information from other sources. The probability of exercise is assessed quarterly, or as events trigger a change, and takes into consideration the current economic and airline industry environments. Trade-in commitments, which can be terminated by mutual consent with the customer, may be exercised only during the period specified in the agreement, and require advance notice by the customer. Trade-in commitment agreements at September 30, 2014 have expiration dates from 2014 through 2026. At September 30, 2014, and December 31, 2013 total contractual trade-in commitments were $2,396 and $1,605. As of September 30, 2014 and December 31, 2013, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $490 and $325 and the fair value of the related trade-in aircraft was $490 and $325.

Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, totaled $16,662 and $17,987 as of September 30, 2014 and December 31, 2013. The estimated earliest potential funding dates for these commitments as of September 30, 2014 are as follows:

| | Total |
|---|---|
| October through December 2014 | $506 |
| 2015 | 2,855 |
| 2016 | 3,412 |
| 2017 | 3,452 |
| 2018 | 2,066 |
| Thereafter | 4,371 |
| | $16,662 |

As of September 30, 2014, 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.

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Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately $4,073 and $4,376 as of September 30, 2014 and December 31, 2013.

Commitments to ULA

We and Lockheed Martin Corporation have each committed to provide ULA with up to $527 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 5.

C-17

In September 2013, we decided to end production of C-17 aircraft in late 2015. In April 2014, we announced that we anticipate ending production approximately three months earlier based on our decision to produce three fewer aircraft in 2015 than previously planned. As a result, during the first quarter of 2014, BDS recorded $48 to write off inventory and accrue termination liabilities to suppliers. In October 2014, we received an order for two C-17 aircraft and we have active sales campaigns for the remaining eight unsold aircraft. We are currently incurring costs and have made commitments to suppliers related to these aircraft. We believe it is probable that we will recover costs related to the unsold aircraft from international customer orders. Should orders for the eight unsold aircraft not materialize or should we decide to discontinue production of unsold aircraft, we could incur further charges to write-down inventory and/or record termination liabilities. At September 30, 2014, we had approximately $1,297 of capitalized precontract costs and $578 of potential termination liabilities to suppliers associated with unsold aircraft.

F/A-18

At September 30, 2014, our backlog included 76 F/A-18 aircraft currently under contract with the U.S. Navy. The President’s Fiscal Year 2015 budget request submitted in March 2014 did not include funding for additional F/A-18 aircraft. We are continuing to work with our U.S. customer as well as international customers to secure additional orders. The orders in backlog would complete production in 2016. Should additional orders not materialize, it is reasonably possible that we will decide in the next twelve months to end production of the F/A-18 at a future date. We are still evaluating the full financial impact of a potential production shutdown, including any recovery that may be available from the U.S. government.

United States Government Defense Environment Overview

U.S. government appropriation levels remain subject to significant uncertainty. In August 2011, the Budget Control Act (The Act) established limits on U.S. government discretionary spending, including a reduction of defense spending by approximately $490 billion between the 2012 and 2021 U.S. government fiscal years. The Act also provided that the defense budget would face “sequestration” cuts of up to an additional $500 billion during that same period to the extent that discretionary spending limits are exceeded. The impact of sequestration cuts was reduced with respect to FY2014 and FY2015 following the enactment of The Bipartisan Budget Act in December 2013. However, significant uncertainty remains with respect to overall levels of defense spending and it is likely that U.S. government discretionary spending levels for FY2016 and beyond will continue to be subject to significant pressure, including risk of future sequestration cuts.

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

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

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

Fixed-price development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work. BDS fixed-price contracts with significant development work include Airborne Early Warning and Control, India P-8I, Saudi Arabia F-15, USAF KC-46A Tanker and commercial and military satellites. The operational and technical complexities of these contracts create financial risk, which could trigger termination provisions, order cancellations or other financially significant exposure. Changes to cost and revenue estimates could result in lower margins or material charges for reach-forward losses. For example, during the second quarter of 2014, higher estimated costs to complete the KC-46A Tanker contract for the U.S. Air Force resulted in a reach-forward loss of $425 of which the Commercial Airplanes segment recorded $238 and the BMA segment recorded $187.

Recoverable Costs on Government Contracts

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

Russia/Ukraine

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

747 and 787 Commercial Airplane Programs

The development and initial production of new commercial airplanes and new commercial airplane derivatives, which include the 747 and 787, entail significant commitments to customers and suppliers as well as substantial investments in working capital, infrastructure and research and development. The 747 and 787 programs had gross margins that were breakeven or near breakeven during the nine months ended September 30, 2014.

Lower-than-expected demand for large commercial passenger and freighter aircraft have resulted in ongoing pricing pressures and fewer 747 orders than anticipated. We continue to have a number of unsold 747 production positions. If market and production risks cannot be mitigated, the program could face a reach-forward loss that may be material.

The combination of production challenges, change incorporation, schedule delays and customer and supplier impacts has created significant pressure on 787 program profitability. If risks related to this program, including risks associated with planned production rate increases or introducing and manufacturing derivatives as scheduled cannot be mitigated, the program could face additional customer claims and/or supplier assertions, as well as a reach-forward loss that may be material.

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Note 10 – 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 | |
|---|---|---|---|---|---|---|
| | September 30 2014 | December 31 2013 | September 30 2014 | December 31 2013 | September 30 2014 | December 31 2013 |
| Contingent repurchase commitments | $1,641 | $1,872 | $1,629 | $1,871 | $5 | $5 |
| Indemnifications to ULA: | | | | | | |
| Contributed Delta program launch inventory | 121 | 127 | | | | |
| Contract pricing | 261 | 261 | | | 7 | 7 |
| Other Delta contracts | 150 | 227 | | | | 8 |
| Other indemnifications | 85 | 106 | | | 28 | 28 |
| Credit guarantees | 30 | 35 | 27 | 27 | 2 | 2 |

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

Indemnifications to ULA In 2006, we agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of $1,360 of Boeing Delta launch program inventory included in contributed assets plus $1,860 of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed $1,239 of the $1,360 of inventory that was contributed by us and has yet to consume $121. ULA has made advance payments of $1,560 to us and we have recorded revenues and cost of sales of $1,230 under the inventory supply agreement through September 30, 2014.

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. In June 2009, ULA filed a notice of appeal, and in October 2009, ULA filed a complaint before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of the two satellite missions. In September 2009, the USAF exercised its option for a third satellite mission. During the third quarter of 2010, ULA submitted a claim to the USAF to re-price the contract value of the third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. In March 2011, ULA filed a notice of appeal before the ASBCA, seeking to re-price the third mission. On November 20, 2013, the ASBCA denied USAF motions for summary judgment against ULA in large part, leaving ULA's claims against the USAF substantially intact. The hearing before the ASBCA concluded on December 20, 2013. The parties filed their final post-hearing briefs in May 2014. The Board may now issue a ruling at any time, but there is no scheduled date or official deadline for its decision. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for a portion of the shortfall and may record up to $278 in pre-tax losses associated with the three missions, representing up to $261 for the indemnification payment and up to $17 for our portion of additional contract losses incurred by ULA.

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Potential payments for Other Delta contracts include $85 related to deferred support 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 As part of the 2004 sale agreement with General Electric Capital Corporation related to the sale of BCC's Commercial Financial Services business, BCC is involved in a loss sharing arrangement for losses on transferred portfolio assets, such as asset sales, provisions for loss or asset impairment charges offset by gains from asset sales. At September 30, 2014 and December 31, 2013, our maximum future cash exposure to losses associated with the loss sharing arrangement was $85 and $106 and our accrued liability under the loss sharing arrangement was $28.
In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our Commercial Airplanes facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. It is impossible 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 9.
Credit Guarantees We have issued credit guarantees, principally to facilitate the sale and/or financing of commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that lease or loan payments are not made by the original lessee or debtor or certain specified services are not performed. A substantial portion of these guarantees has been extended on behalf of original lessees or debtors with less than investment-grade credit. Our commercial aircraft credit guarantees are collateralized by the underlying commercial aircraft and certain other assets. Current outstanding credit guarantees expire within the next seven years.

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Note 11 – Postretirement Plans

The components of net periodic benefit cost were as follows:

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| Pension Plans | 2014 | 2013 | 2014 | 2013 |
| Service cost | $1,244 | $1,414 | $415 | $468 |
| Interest cost | 2,300 | 2,175 | 758 | 713 |
| Expected return on plan assets | (3,125) | (2,907) | (1,042) | (969) |
| Amortization of prior service costs | 133 | 150 | 44 | 52 |
| Recognized net actuarial loss | 768 | 1,668 | 254 | 530 |
| Settlement/curtailment/other losses | 372 | 104 | 35 | 84 |
| Net periodic benefit cost | $1,692 | $2,604 | $464 | $878 |
| Net periodic benefit cost included in Earnings from operations | $2,443 | $2,319 | $715 | $775 |

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| Other Postretirement Benefit Plans | 2014 | 2013 | 2014 | 2013 |
| Service cost | $97 | $111 | $33 | $37 |
| Interest cost | 216 | 198 | 72 | 65 |
| Expected return on plan assets | (6) | (5) | (2) | (1) |
| Amortization of prior service costs | (108) | (135) | (36) | (45) |
| Recognized net actuarial loss | 6 | 72 | 2 | 24 |
| Net periodic benefit cost | $205 | $241 | $69 | $80 |
| Net periodic benefit cost included in Earnings from operations | $214 | $269 | $71 | $90 |

In the first quarter of 2014, we announced changes to our nonunion and certain union retirement plans whereby approximately 100,000 employees will transition in 2016 to a company-funded defined contribution retirement savings plan in lieu of participation in defined benefit pension plans. The defined benefit pension plan changes resulted in charges of $334 in the first quarter of 2014, primarily for pension curtailment costs. In addition, we remeasured pension assets and benefit obligations for the affected pension plans. These remeasurements resulted in a net actuarial gain of $966 which is included in Other Comprehensive Income. The $966 reflects a gain of $1,988 resulting from benefit plan changes that was partially offset by net actuarial losses of $1,022 primarily driven by a reduction in the discount rate from approximately 4.8% at December 31, 2013 to approximately 4.5% as of the remeasurement dates.

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Note 12 – Share-Based Compensation and Other Compensation Arrangements

Restricted Stock Units

On February 24, 2014, we granted to our executives 695,651 restricted stock units (RSUs) as part of our long-term incentive program with a grant date fair value of $129.58 per share. 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 24, 2014, we granted to our executives 662,215 performance-based restricted stock units (PBRSUs) as part of our long-term incentive program with a grant date fair value of $136.12 per share. The PBRSUs 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 based on the Company's total shareholder return as compared to a group of peer companies. The award payout can range from 0% to 200% of the original PBRSU award amount. Compensation expense for the award is recognized over the three-year performance period based upon the fair value determined at grant date using a Monte-Carlo simulation model.

Performance Awards

On February 24, 2014, we granted performance awards to our executives with the payout based on the achievement of financial goals for the three-year period ending December 31, 2016. At September 30, 2014, the minimum payout amount is $0 and the maximum amount we could be required to pay out is $343.

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Note 13 – Shareholders' Equity
Accumulated Other Comprehensive Loss
Changes in Accumulated other comprehensive income/(loss) (AOCI) by component for the nine and three months ended September 30, 2014 and 2013 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, 2013 | $214 | ($8) | $86 | ($17,708) | | ($17,416) |
| Other comprehensive income/(loss) before reclassifications | (46) | | (54) | 135 | | 35 |
| Amounts reclassified from AOCI | | | (13) | 1,207 | [2] | 1,194 |
| Net current period Other comprehensive income/(loss) | (46) | | (67) | 1,342 | | 1,229 |
| Balance at September 30, 2013 | $168 | ($8) | $19 | ($16,366) | | ($16,187) |
| | | | | | | |
| Balance at January 1, 2014 | $150 | ($8) | ($6) | ($10,030) | | ($9,894) |
| Other comprehensive income/(loss) before reclassifications | (34) | 2 | (64) | 623 | | 527 |
| Amounts reclassified from AOCI | | | (2) | 716 | [2] | 714 |
| Net current period Other comprehensive income/(loss) | (34) | 2 | (66) | 1,339 | | 1,241 |
| Balance at September 30, 2014 | $116 | ($6) | ($72) | ($8,691) | | ($8,653) |
| | | | | | | |
| Balance at June 30, 2013 | $126 | ($8) | ($6) | ($16,906) | | ($16,794) |
| Other comprehensive income/(loss) before reclassifications | 42 | | 35 | 102 | | 179 |
| Amounts reclassified from AOCI | | | (10) | 438 | [2] | 428 |
| Net current period Other comprehensive income/(loss) | 42 | | 25 | 540 | | 607 |
| Balance at September 30, 2013 | $168 | ($8) | $19 | ($16,366) | | ($16,187) |
| | | | | | | |
| Balance at June 30, 2014 | $188 | ($5) | $20 | ($8,862) | | ($8,659) |
| Other comprehensive income/(loss) before reclassifications | (72) | (1) | (89) | 1 | | (161) |
| Amounts reclassified from AOCI | | | (3) | 170 | [2] | 167 |
| Net current period Other comprehensive income/(loss) | (72) | (1) | (92) | 171 | | 6 |
| Balance at September 30, 2014 | $116 | ($6) | ($72) | ($8,691) | | ($8,653) |

(1) Net of tax.

(2) Primarily relates to amortization of actuarial gains/losses for the nine and three months ended September 30, 2013 totaling $1,135 and $380 (net of tax of $(644) and $(213)) and to amortization of actuarial gains/losses, settlements and curtailments for the nine and three months ended September 30, 2014 totaling $700 and $165 (net of tax of ($388) and $(90)). These are included in the net periodic pension cost of which a portion is allocated to production as inventoried costs.

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Note 14 – Derivative Financial Instruments

Cash Flow Hedges

Our cash flow hedges include foreign currency forward contracts, foreign currency option contracts, commodity swaps, and commodity purchase contracts. We use foreign currency forward and option contracts to manage currency risk associated with certain transactions, specifically forecasted sales and purchases made in foreign currencies. Our foreign currency contracts hedge forecasted transactions through 2019. We use commodity derivatives, such as swaps and fixed-price purchase commitments to hedge against potentially unfavorable price changes for items used in production. Our commodity contracts hedge forecasted transactions through 2017.

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 also hold certain derivative instruments, primarily foreign currency forward contracts, for risk management purposes that are not receiving 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 | |
|---|---|---|---|---|---|---|
| | September 30 2014 | December 31 2013 | September 30 2014 | December 31 2013 | September 30 2014 | December 31 2013 |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign exchange contracts | $2,830 | $2,524 | $22 | $122 | ($120) | ($64) |
| Interest rate contracts | 313 | 313 | 10 | 13 | | |
| Commodity contracts | 39 | 72 | 1 | 2 | (26) | (39) |
| Derivatives not receiving hedge accounting treatment: | | | | | | |
| Foreign exchange contracts | 470 | 259 | 28 | 12 | (9) | (35) |
| Commodity contracts | 4 | 9 | | | (1) | (4) |
| Total derivatives | $3,656 | $3,177 | 61 | 149 | (156) | (142) |
| Netting arrangements | | | (23) | (63) | 23 | 63 |
| Net recorded balance | | | $38 | $86 | ($133) | ($79) |

[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:

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Effective portion recognized in Other comprehensive income/(loss), net of taxes: | | | | |
| Foreign exchange contracts | ($65) | ($51) | ($85) | $36 |
| Commodity contracts | 1 | (3) | (4) | (1) |
| Effective portion reclassified out of Accumulated other comprehensive loss into earnings, net of taxes: | | | | |
| Foreign exchange contracts | 14 | 28 | 7 | 14 |
| Commodity contracts | (12) | (15) | (4) | (4) |
| Forward points recognized in Other income, net: | | | | |
| Foreign exchange contracts | 25 | 24 | 9 | 2 |
| Undesignated derivatives recognized in Other income, net: | | | | |
| Foreign exchange contracts | (5) | 13 | 1 | (1) |

Based on our portfolio of cash flow hedges, we expect to reclassify losses of $55 (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 nine and three months ended September 30, 2014 and 2013.

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 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 September 30, 2014 was $13. At September 30, 2014, there was no collateral posted related to our derivatives.

Note 15 – Fair Value Measurements

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. 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.

| | September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | | | |
| Money market funds | $1,904 | $1,904 | | | $3,783 | $3,783 | | |
| Available-for-sale investments | 9 | 9 | | | 8 | 6 | | $2 |
| Derivatives | 38 | | $38 | | 86 | | $86 | |
| Total assets | $1,951 | $1,913 | $38 | | $3,877 | $3,789 | $86 | $2 |
| Liabilities | | | | | | | | |
| Derivatives | ($133) | | ($133) | | ($79) | | ($79) | |
| Total liabilities | ($133) | | ($133) | | ($79) | | ($79) | |

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Money market funds and available-for-sale equity securities are valued using a market approach based on the quoted market prices of identical instruments. Available-for-sale debt investments are primarily valued using an income approach based on benchmark yields, reported trades and broker/dealer quotes.

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 nine months ended September 30 due to long-lived asset impairment and the fair value and asset classification of the related assets as of the impairment date:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Fair Value | Total Losses | Fair Value | Total Losses |
| Operating lease equipment | $157 | ($92) | $28 | ($21) |
| Property, plant and equipment | 19 | (14) | 39 | (12) |
| Total | $176 | ($106) | $67 | ($33) |

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

For Level 3 assets that were measured at fair value on a nonrecurring basis during the nine months ended September 30, 2014, 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 | $157 | Market approach | Aircraft value publications | $102 - $180[1] Median $155 |
| | | | Aircraft condition adjustments | ($31) - $7[2] Net ($24) |

(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.

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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:

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Accounts receivable, net | $7,799 | $7,836 | | $7,836 | |
| Notes receivable, net | 432 | 461 | | 461 | |
| Liabilities | | | | | |
| Debt, excluding capital lease obligations | (8,724) | (10,367) | | (10,152) | (215) |
| | December 31, 2013 | | | | |
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Accounts receivable, net | $6,546 | $6,525 | | $6,525 | |
| Notes receivable, net | 572 | 622 | | 622 | |
| Liabilities | | | | | |
| Debt, excluding capital lease obligations | (9,483) | (10,897) | | (10,897) | |

The fair value of Accounts receivable is based on current market rates for loans of the same risk and maturities. The fair values of our variable rate notes receivable that reprice frequently approximate their carrying amounts. The fair values of fixed rate 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 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 September 30, 2014 and December 31, 2013. 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. Potentially material contingencies are discussed below.

We are subject to various U.S. government 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 government disputes and investigations will not have a material effect on our financial position, results of operations, or cash flows, except as set forth below. Where it is reasonably possible that we will incur losses in excess of recorded amounts in connection with any of the matters set forth below, we will disclose either the amount or range of reasonably possible losses in excess of such amounts or, where no such amount or range can be reasonably estimated, the reasons why no such estimate can be made.

Employment, Labor and Benefits Litigation

In connection with the 2005 sale of the former Wichita facility to Spirit AeroSystems, Inc. (Spirit), on February 16, 2007, an action entitled Harkness et al. v. The Boeing Company et al. was filed in the U.S. District Court for the District of Kansas, alleging collective bargaining agreement breaches and ERISA violations in connection with alleged failures to provide benefits to certain former employees of the Wichita facility. The plaintiffs and Boeing agreed on June 12, 2014 to a settlement of the matter, subject to a fairness hearing. The settlement would apply to approximately 2,000 employees who were subsequently employed by Spirit. Spirit is obligated to indemnify Boeing for settlement of this matter and we intend to pursue full indemnification from Spirit. We cannot reasonably estimate the range of loss, if any, that may result from this matter pending the outcome of the fairness hearing.

On October 13, 2006, we were named as a defendant in a lawsuit filed in the U.S. District Court for the Southern District of Illinois. Plaintiffs, seeking to represent a class of similarly situated participants and beneficiaries in The Boeing Company Voluntary Investment Plan (the VIP), alleged that fees and expenses incurred by the VIP were and are unreasonable and excessive, not incurred solely for the benefit of the VIP and its participants, and were undisclosed to participants. The plaintiffs further alleged that defendants breached their fiduciary duties in violation of §502(a)(2) of ERISA, and sought injunctive and equitable relief pursuant to §502(a)(3) of ERISA. We moved for summary judgment and oral argument was held on August 4, 2014. Currently, there is no trial date, as the court considers the summary judgment motions and as the parties complete discovery. We cannot reasonably estimate the range of loss, if any, that may result from this matter given the current procedural status of the litigation.

Note 17 – Segment Information

Effective during the first quarter of 2014, certain programs were realigned among BDS segments. The BMA aircraft programs Airborne Warning and Control Systems and Airborne Early Warning and Control and the F-22 Modernization program were realigned from BMA to GS&S. Beginning in the third quarter of 2014, amounts previously reported separately as Other segment and Unallocated items and eliminations are now presented on a combined basis to provide a more meaningful presentation. Segment data for 2013 have been adjusted to reflect the changes.

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.

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

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial Airplanes | $1,223 | $752 | $671 | $189 |
| Boeing Capital | 14 | 22 | 3 | 5 |
| Total | $1,237 | $774 | $674 | $194 |

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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.

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Share-based plans | ($66) | ($74) | ($22) | ($21) |
| Deferred compensation | (22) | (165) | (3) | (63) |
| Amortization of previously capitalized interest | (55) | (52) | (19) | (18) |
| Eliminations and other unallocated items | (472) | (339) | (168) | (80) |
| Sub-total | (615) | (630) | (212) | (182) |
| Pension | (1,135) | (1,045) | (331) | (356) |
| Postretirement | 67 | 54 | 20 | 16 |
| Pension and Postretirement | (1,068) | (991) | (311) | (340) |
| Total | ($1,683) | ($1,621) | ($523) | ($522) |

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 Commercial Airplanes. Pension costs are allocated to BDS using U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than Generally Accepted Accounting Principles in the United States of America (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:

| | September 30 2014 | December 31 2013 |
|---|---|---|
| Commercial Airplanes | $54,946 | $49,520 |
| Defense, Space & Security: | | |
| Boeing Military Aircraft | 7,379 | 5,872 |
| Network & Space Systems | 6,304 | 6,450 |
| Global Services & Support | 4,625 | 5,040 |
| Total Defense, Space & Security | 18,308 | 17,362 |
| Boeing Capital | 3,567 | 3,914 |
| Unallocated items, eliminations and other | $15,832 | $21,867 |
| Total | $92,653 | $92,663 |

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 by SSG 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 September 30, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013, and the related condensed consolidated statements of cash flows and equity for the nine-month periods ended September 30, 2014 and 2013. 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, 2013, 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 14, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
October 22, 2014

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FORWARD-LOOKING STATEMENTS

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

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

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

(2) our reliance on our commercial airline customers;

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

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

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

(6) our reliance on fixed-price contracts;

(7) our reliance on cost-type contracts;

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

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

(10) changes in accounting estimates;

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

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

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

(14) customer and aircraft concentration in Boeing Capital’s customer financing portfolio;

(15) changes in our ability to obtain debt on commercially reasonable terms and at competitive rates in order to fund our operations and contractual commitments;

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

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

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

(19) work stoppages or other labor disruptions;

(20) significant changes in discount rates and actual investment return on pension assets;

(21) potential environmental liabilities; and

(22) threats to the security of our or our customers' information.

Additional information concerning these and other factors can be found in our filings with the Securities and Exchange Commission, including the "Risk Factors" on pages 6 through 15 of our most recent Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 9, 10, and 16 to our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and Current Reports on Form 8-K. Any forward-looking information speaks only as of the date on which it is made, and we assume no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise, except as required by law.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Consolidated Results of Operations and Financial Condition
Earnings From Operations and Core Operating Earnings (Non-GAAP) The following table summarizes key indicators of consolidated results of operations:

| (Dollars in millions, except per share data) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $66,294 | $62,838 | $23,784 | $22,130 |
| GAAP | | | | |
| Earnings from operations | $5,448 | $5,047 | $2,119 | $1,803 |
| Operating margins | 8.2 % | 8.0 % | 8.9 % | 8.1 % |
| Effective income tax rate | 23.6 % | 30.1 % | 32.9 % | 32.8 % |
| Net earnings | $3,980 | $3,352 | $1,362 | $1,158 |
| Diluted earnings per share | $5.36 | $4.36 | $1.86 | $1.51 |
| Non-GAAP [1] | | | | |
| Core operating earnings | $6,516 | $6,038 | $2,430 | $2,143 |
| Core operating margin | 9.8 % | 9.6 % | 10.2 % | 9.7 % |
| Core earnings per share | $6.30 | $5.20 | $2.14 | $1.80 |

(1) These measures exclude certain components of pension and other postretirement benefit expense. See page 48 for important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Revenues

The following table summarizes Revenues:

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial Airplanes | $43,151 | $38,301 | $16,110 | $13,987 |
| Defense, Space & Security | 23,293 | 24,342 | 7,913 | 8,046 |
| Boeing Capital | 263 | 303 | 91 | 94 |
| Unallocated items, eliminations and other | (413) | (108) | (330) | 3 |
| Total | $66,294 | $62,838 | $23,784 | $22,130 |

Revenues for the nine and three months ended September 30, 2014 increased by $3,456 million and $1,654 million, or 5% and 7% compared with the same periods in 2013. Commercial Airplanes revenues increased by $4,850 million and $2,123 million, or 13% and 15% due to higher airplane deliveries. Defense, Space & Security (BDS) revenues for the nine months ended September 30, 2014 decreased by $1,049 million, or 4% compared with the same period in 2013 due to lower revenues in all three segments. BDS revenues for the three months ended September 30, 2014 decreased by $133 million, or 2% compared with the same period in 2013 due to $232 million of lower revenues in the Network & Space Systems (N&SS) and Global Services & Support (GS&S) segments, partially offset by higher revenues of $99 million in the Boeing Military Aircraft (BMA) segment.

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Earnings From Operations

The following table summarizes Earnings from operations:

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial Airplanes | $4,849 | $4,289 | $1,797 | $1,617 |
| Defense, Space & Security | 2,216 | 2,281 | 856 | 673 |
| Boeing Capital | 66 | 98 | (11) | 35 |
| Unallocated pension and other postretirement benefit expense | (1,068) | (991) | (311) | (340) |
| Other unallocated items and eliminations | (615) | (630) | (212) | (182) |
| Earnings from operations (GAAP) | $5,448 | $5,047 | $2,119 | $1,803 |
| Unallocated pension and other postretirement benefit expense | 1,068 | 991 | 311 | 340 |
| Core operating earnings (Non-GAAP) | $6,516 | $6,038 | $2,430 | $2,143 |

Earnings from operations for the nine months ended September 30, 2014 increased by $401 million compared with the same period in 2013 primarily reflecting higher earnings at Commercial Airplanes of $560 million, partially offset by higher unallocated pension and other postretirement benefit expense of $77 million and lower BDS earnings of $65 million.

Earnings from operations for the three months ended September 30, 2014 increased by $316 million compared with the same period in 2013 primarily reflecting higher earnings of $183 million at BDS and $180 million at Commercial Airplanes.

Core operating earnings for the nine months ended September 30, 2014 increased by $478 million primarily reflecting higher earnings at Commercial Airplanes. Core operating earnings for the three months ended September 30, 2014 increased by $287 million compared with the same period in 2013 primarily reflecting higher earnings at BDS and Commercial Airplanes.

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

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Share-based plans | ($66) | ($74) | ($22) | ($21) |
| Deferred compensation | (22) | (165) | (3) | (63) |
| Eliminations and other | (527) | (391) | (187) | (98) |
| Sub-total (included in core operating earnings*) | (615) | (630) | (212) | (182) |
| Pension | (1,135) | (1,045) | (331) | (356) |
| Postretirement | 67 | 54 | 20 | 16 |
| Pension and other postretirement benefit expense (excluded from core operating earnings*) | (1,068) | (991) | (311) | (340) |
| Total | ($1,683) | ($1,621) | ($523) | ($522) |

* Core operating earnings is a Non-GAAP measure that excludes certain components of pension and postretirement benefit expense. See page 48.

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Deferred compensation expense for the nine and three months ended September 30, 2014 decreased by $143 million and $60 million compared with the same periods in 2013 primarily driven by changes in our stock price and broad stock market conditions.

Eliminations and other unallocated loss for the nine and three months ended September 30, 2014 increased by $136 million and $89 million compared with the same periods in 2013 primarily due to the timing of elimination of profit on intercompany aircraft deliveries and expense allocations. In addition, the increase reflects operating lease equipment impairments of $71 million recorded in the third quarter of 2014.

We recorded net periodic benefit cost related to pension and other postretirement benefits of $1,897 million and $533 million for the nine and three months ended September 30, 2014 compared with $2,845 million and $958 million for the same periods in 2013. The decrease in net periodic benefit cost related to pension is primarily due to lower amortization of actuarial losses. The decrease in the nine month period is partially offset by higher curtailment charges of $334 million recorded in unallocated pension expense during the first quarter of 2014. See Note 11. A portion of net periodic benefit cost is recognized as product costs in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods.

Costs are allocated to the business segments as described in Note 17.

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

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| Pension Plans | 2014 | 2013 | 2014 | 2013 |
| Allocated to business segments | ($1,308) | ($1,274) | ($384) | ($419) |
| Other unallocated items and eliminations | (1,135) | (1,045) | (331) | (356) |
| Total | ($2,443) | ($2,319) | ($715) | ($775) |

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| Other Postretirement Plans | 2014 | 2013 | 2014 | 2013 |
| Allocated to business segments | ($281) | ($323) | ($91) | ($106) |
| Other unallocated items and eliminations | 67 | 54 | 20 | 16 |
| Total | ($214) | ($269) | ($71) | ($90) |

Other Earnings Items

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Earnings from operations | $5,448 | $5,047 | $2,119 | $1,803 |
| Other income/(loss), net | 11 | 41 | (9) | 19 |
| Interest and debt expense | (252) | (290) | (79) | (95) |
| Earnings before income taxes | 5,207 | 4,798 | 2,031 | 1,727 |
| Income tax expense | (1,227) | (1,445) | (669) | (567) |
| Net earnings from continuing operations | $3,980 | $3,353 | $1,362 | $1,160 |

Our effective income tax rates were 23.6% and 32.9% for the nine and three months ended September 30, 2014 and 30.1% and 32.8% for the same periods in the prior year. The effective tax rate for the nine months ended September 30, 2014 is lower than the comparable prior year period primarily due to tax benefits of $265 million related to tax basis adjustments and $259 million related to audit settlements, both recorded in

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the second quarter of 2014, offset by the absence of the U.S. research and development tax credit (research tax credit). The research tax credit was effective for 2013, but due to the expiration at the end of 2013, no tax benefit has been recorded in 2014. Furthermore, in the first quarter of 2013, Congress retroactively reinstated the research tax credit for 2012, which reduced income tax expense by $145 million. If Congress extends the research tax credit for 2014 there will be a favorable impact on our effective income tax rate.

For additional discussion related to Income Taxes, see Note 3 to our Condensed Consolidated Financial Statements.

Total Costs and Expenses ("Cost of Sales")

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

| (Dollars in millions) | Nine months ended September 30 | | | Three months ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| Cost of sales | $56,039 | $52,882 | $3,157 | $20,073 | $18,676 | $1,397 |
| Cost of sales as a % of Revenues | 84.5 % | 84.2 % | 0.3 % | 84.4 % | 84.4 % | 0.0 % |

Cost of sales for the nine months ended September 30, 2014 increased by $3,157 million, or 6% compared with the same period in 2013 primarily driven by the $3,456 million, or 5%, increase in revenues. Cost of sales at Commercial Airplanes increased by $4,109 million while cost of sales at BDS decreased by $886 million. Cost of sales as a percentage of revenue was approximately 84.5% in the nine months ended September 30, 2014 compared with 84.2% in the same period in 2013 primarily driven by the KC-46A Tanker charge of $425 million recorded in the second quarter of 2014 and higher unallocated pension expense due to pension curtailment charges of $334 million recorded in the first quarter of 2014, partially offset by improved cost performance.

Cost of sales for the three months ended September 30, 2014 increased by $1,397 million, or 7% compared with the same period in 2013 driven by a $1,654 million increase in revenues. Cost of sales as a percentage of revenue was approximately 84.4% for each of the three month periods ended September 30, 2014 and 2013.

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

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial Airplanes | $1,422 | $1,297 | $452 | $432 |
| Defense, Space & Security | 866 | 892 | 289 | 313 |
| Other | 4 | 34 | 9 | 10 |
| Total | $2,292 | $2,223 | $750 | $755 |

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Research and development expense for the nine months ended September 30, 2014 increased by $69 million compared with the same period in 2013 primarily due to higher spending at Commercial Airplanes on the 777X and 737 MAX. Research and development expense for the three months ended September 30, 2014 was generally consistent with the same period in 2013.

Backlog

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Total contractual backlog | $475,021 | $422,661 |
| Unobligated backlog | 14,873 | 18,267 |

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The increase in contractual backlog during the nine months ended September 30, 2014 compared with December 31, 2013 was primarily due to commercial airplane orders and reclassifications from unobligated backlog related to incremental funding. The increase was partially offset by commercial airplane deliveries and revenues recognized on awarded contracts.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The unobligated backlog of $14,873 million at September 30, 2014 decreased from December 31, 2013 primarily due to reclassifications to contractual backlog related to incremental funding for BDS contracts, partially offset by contract awards.

Additional Considerations

KC-46A Tanker In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver 4 next generation aerial refueling tankers. The KC-46A Tanker is a derivative of our 767 commercial aircraft. This contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. During the second quarter of 2014, we recorded a reach-forward loss of $425 million on this contract. $238 million of this loss was recorded at our Commercial Airplanes segment and the remaining $187 million was recorded in our BMA segment. The reach-forward loss was primarily due to initial engineering and design issues discovered during systems installation that are requiring rework and additional engineering and manufacturing labor to complete this contract. To date the program has met all customer contractual milestones.

This contract contains production options. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately $30 billion. The USAF is scheduled to authorize low rate initial production in 2015 subject to satisfactory progress being made on the development contract.

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 disruptions to production or deliveries. Should suppliers or customers experience disruption, our production and/or deliveries could be materially impacted.

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Segment Results of Operations and Financial Condition
Commercial Airplanes
Business Environment and Trends
Many of our non-U.S. customers finance aircraft purchases through the Export-Import Bank of the United States. In September 2014, the bank's charter was extended and is now set to expire on June 30, 2015. If the bank's charter is not renewed or if the bank's existing or future funding authority is insufficient to meet our customers' needs, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay aircraft purchases if they cannot obtain financing at reasonable costs. We continue to work with our customers to mitigate risks to the timing of future deliveries and are assisting with alternative third party financing sources.
Results of Operations

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $43,151 | $38,301 | $16,110 | $13,987 |
| Earnings from operations | $4,849 | $4,289 | $1,797 | $1,617 |
| Operating margins | 11.2 % | 11.2 % | 11.2 % | 11.6 % |

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Contractual backlog | $429,568 | $372,980 |
| Unobligated backlog | 449 | 660 |

Revenues
Revenues for the nine and three months ended September 30, 2014 increased by $4,850 million and $2,123 million or 13% and 15% compared with the same periods in 2013 due to higher airplane deliveries.
Commercial airplane deliveries, including intercompany deliveries, were as follows:

| | 737 | * | 747 | 767 | 777 | 787 | Total |
|---|---|---|---|---|---|---|---|
| Deliveries during the first nine months of 2014 | 359 | (10) | 12 | †3 | 75 | 79 | 528 |
| Deliveries during the first nine months of 2013 | 330 | (7) | 16 | 17 | 73 | 40 | † 476 |
| Deliveries during the third quarter of 2014 | 120 | (4) | 6 | †2 | 27 | 31 | 186 |
| Deliveries during the third quarter of 2013 | 112 | (2) | 4 | 5 | 26 | 23 | 170 |
| Cumulative deliveries as of 9/30/2014 | 5,092 | | 1,494 | 1,064 | 1,239 | 193 | |
| Cumulative deliveries as of 12/31/2013 | 4,733 | | 1,482 | 1,061 | 1,164 | 114 | |

* Intercompany deliveries identified by parentheses.
† Includes one 787 and two 747 aircraft accounted for as revenue by BCA and as an operating lease in consolidation.
Earnings From Operations
Earnings from operations for the nine months ended September 30, 2014 increased by $560 million compared with the same period in 2013. The increase in earnings reflects higher 737 airplane deliveries and commercial aviation services business of $821 million and improved cost performance of $102 million, partially offset by a reach-forward loss of $238 million related to the KC-46A Tanker contract. Higher research and development expense of $125 million in 2014 was due to increased spending on the 777X and 737 MAX.

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Earnings from operations for the three months ended September 30, 2014 increased by $180 million compared with the same period in 2013. The increase in earnings reflects higher 737 airplane deliveries and commercial aviation services business of $226 million, partially offset by $26 million of higher fleet support costs and other costs associated with business growth. Higher research and development expense of $20 million was due to increased spending on the 777X and 737 MAX.

Backlog

The increase in contractual backlog during the nine months ended September 30, 2014 was due to orders in excess of deliveries partially reduced by cancellation of orders.

Accounting Quantity

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

| | Program | | | | |
|---|---|---|---|---|---|
| As of 9/30/2014 | 737 | 747 | 767 | 777 | 787 |
| Program accounting quantities | 7,600 | 1,574 | 1,113 | 1,600 | 1,300 |
| Undelivered units under firm orders | 4,033 | 42 | 50 | 566 | 861 |
| Cumulative firm orders | 9,125 | 1,536 | 1,114 | 1,805 | 1,054 |

| | Program | | | | |
|---|---|---|---|---|---|
| As of 12/31/2013 | 737 | 747 | 767 | 777 | 787 |
| Program accounting quantities | 7,000 | 1,574 | 1,113 | 1,550 | 1,300 |
| Undelivered units under firm orders | 3,680 | 55 | 49 | 380 | 916 |
| Cumulative firm orders | 8,413 | 1,537 | 1,110 | 1,544 | 1,030 |

Program Highlights

737 Program The accounting quantity for the 737 program increased by 200 units during the three months ended September 30, 2014 and by 600 units during the nine months ended September 30, 2014 due to the program’s normal progress of obtaining additional orders and delivering airplanes. The accounting quantity includes NG and MAX units. We increased our production rate from 38 to 42 per month in the second quarter of 2014 and plan an additional increase to 47 per month in 2017. On October 2, 2014 we announced our plan to further increase the rate to 52 per month in 2018. First delivery of the 737 MAX is expected in 2017.

747 Program Lower-than-expected demand for large commercial passenger and freighter aircraft have resulted in ongoing pricing pressures and fewer orders than anticipated. We continue to produce at a rate of 1.5 per month. We have a number of unsold 747 production positions and remain focused on obtaining additional orders, reducing out-of-sequence work, improving supply chain efficiency and implementing cost-reduction efforts. If market and production risks cannot be mitigated, the program could face a reach-forward loss that may be material.

767 Program We reconfigured the 767 assembly line in 2014 to include a 767 derivative to support the tanker program and decreased our combined tanker and commercial production rate from 2 to 1 per month. We plan to increase the production rate from 1 to 1.5 per month in the fourth quarter of 2014 and back to 2 per month in 2016.

777 Program The accounting quantity for the 777 program increased by 50 units during the three months ended September 30, 2014. We are currently producing at a rate of 8.3 airplanes per month. In the fourth quarter of 2013 we launched the 777X and first delivery is expected in 2020.

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787 Program During the second quarter of 2014 we completed initial type certification for the 787-9 and received design and production certifications. We delivered the first 787-9 airplane in June 2014. First delivery of the 787-10 derivative aircraft is targeted for 2018.

We are operating at 10 per month and the first delivery at this rate occurred in March 2014. We remain focused on stabilizing 787 production rates at 10 per month while improving aircraft reliability and satisfying customer mission and performance requirements. We continue to monitor and address challenges associated with aircraft production and assembly, including management of our manufacturing operations and extended global supply chain, completion and integration of traveled work, incorporating changes identified during 787-8 flight testing to already completed aircraft, as well as the incorporation of the 787-9 derivative into the manufacturing process. In addition, we continue to work with our customers and suppliers to assess the specific impacts of schedule changes, including requests for contractual relief related to delivery delays and supplier assertions.

During 2009, we concluded that the first three flight-test 787 aircraft could not be sold as previously anticipated due to the inordinate amount of rework and unique and extensive modifications made to those aircraft. As a result, costs associated with these airplanes were included in research and development expense. Based on sales activity and market interest we continue to believe that the remaining 787 flight-test aircraft are commercially saleable and we continue to include costs related to these aircraft in program inventory. If we determine that any of the remaining flight test aircraft cannot be sold, we may incur additional charges related to the reclassification of costs associated with those aircraft to research and development expense.

The accounting quantity of 1,300 units remains unchanged and reflects the incorporation of revenue and cost estimates associated with the 787-10 and planned production rate increases to 12 and 14 airplanes per month in future years. The accounting quantity of 1,300 units continues to represent approximately 10 years of production at planned production rates. The combination of production challenges, change incorporation, schedule delays and customer and supplier impacts has created significant pressure on program profitability. If risks related to this program, including risks associated with planned production rate increases, or introducing the 787-9 and 787-10 derivatives as scheduled cannot be mitigated, the program could face additional customer claims and/or supplier assertions, as well as further pressures on program profitability and/or a reach-forward loss. We continue to implement mitigation plans and cost-reduction efforts to improve program profitability and address program risks.

Additional Considerations

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

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Defense, Space & Security

Business Environment and Trends

United States Government Defense Environment Overview U.S. government appropriation levels remain subject to significant uncertainty. In August 2011, the Budget Control Act (The Act) established limits on U.S. government discretionary spending, including a reduction of defense spending by approximately $490 billion between the 2012 and 2021 U.S. government fiscal years. The Act also provided that the defense budget would face “sequestration” cuts of up to an additional $500 billion during that same period to the extent that discretionary spending limits are exceeded. The impact of sequestration cuts was reduced with respect to FY2014 and FY2015 following the enactment of The Bipartisan Budget Act in December 2013. However, significant uncertainty remains with respect to overall levels of defense spending and it is likely that U.S. government discretionary spending levels for FY2016 and beyond will continue to be subject to significant pressure, including risk of future sequestration cuts.

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

In addition to the risks described above, if Congress is unable to pass appropriations bills in a timely manner, a government shutdown could result which could have impacts above and beyond those resulting from budget cuts or sequestration impacts. 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. On September 19, 2014 a “continuing resolution” was enacted to fund U.S. government programs at existing rates from October 1, 2014. Absent further legislation, this funding will expire on December 11, 2014.

BDS Realignment

Effective during the first quarter of 2014, certain programs were realigned between BDS segments. The realignments include certain BMA aircraft and modernization programs which were moved to GS&S. Business segment data for 2013 have been adjusted to reflect the realignment. See Note 17.

Results of Operations

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $23,293 | $24,342 | $7,913 | $8,046 |
| Earnings from operations | $2,216 | $2,281 | $856 | $673 |
| Operating margins | 9.5 % | 9.4 % | 10.8 % | 8.4 % |

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Contractual backlog | $45,453 | $49,681 |
| Unobligated backlog | 14,424 | 17,607 |

Since our operating cycle is long-term and involves many different types of development and production contracts with varying delivery and milestone schedules, the operating results of a particular year, or year-to-year comparisons of revenues, earnings and backlog may not be indicative of future operating results. In addition, depending on the customer and their funding sources, our orders might be structured as annual

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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 for the nine months ended September 30, 2014 decreased by $1,049 million compared with the same period in 2013 due to lower revenues in all three segments.

BDS revenues for the three months ended September 30, 2014 decreased by $133 million compared with the same period in 2013 due to lower revenues of $204 million and $28 million in the N&SS and GS&S segments, partially offset by higher revenues of $99 million in the BMA segment.

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

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Boeing Military Aircraft | | | | |
| F/A-18 Models | 36 | 36 | 13 | 12 |
| F-15E Eagle | 10 | 3 | 2 | |
| C-17 Globemaster III | 7 | 8 | 2 | 2 |
| CH-47 Chinook | 46 | 32 | 14 | 15 |
| AH-64 Apache | 30 | 31 | 11 | 11 |
| P-8 Models | 6 | 7 | 4 | 2 |
| Global Services & Support | | | | |
| AEW&C | 3 | | 1 | |
| Total new-build production aircraft | 138 | 117 | 47 | 42 |

Earnings From Operations

BDS earnings from operations for the nine months ended September 30, 2014 decreased by $65 million compared with the same period in 2013 due to lower earnings of $121 million in the BMA segment, partially offset by higher earnings of $35 million and $21 million in the GS&S and N&SS segments.

BDS earnings from operations for the three months ended September 30, 2014 increased by $183 million compared with the same period in 2013 due to higher earnings of $195 million in the BMA segment, partially offset by lower earnings of $8 million and $4 million in the GS&S and N&SS segments.

Backlog

BDS total backlog was $59,877 million at September 30, 2014, reflecting a decrease of 11% from December 31, 2013. For further details on the changes between periods, refer to the discussions of the individual segments below.

Additional Considerations

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

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(GMD), Proprietary and Space Launch Systems programs. Some of our development programs are contracted on a fixed-price basis. Many of these programs have highly complex designs. As technical or quality issues arise during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues. Examples of significant fixed-price development programs include Airborne Early Warning and Control (AEW&C), India P-8I, Saudi Arabia F-15, USAF KC-46A Tanker, and commercial and military satellites.

Revenue and cost estimates for all significant contracts are reviewed and reassessed quarterly. Changes in these estimates could result in recognition of cumulative catch-up adjustments to the contract's inception to date revenues, cost of sales and profit, in the period in which such changes are made. Changes in revenue and cost estimates could also result in a reach-forward loss or an adjustment to a reach-forward loss, which would be recorded immediately in earnings. For both of the nine months ended September 30, 2014 and 2013, net favorable cumulative catch-up adjustments, including reach-forward losses, across all BDS contracts increased Earnings from operations by $184 million. For the three months ended September 30, 2014 and 2013, net favorable cumulative catch-up adjustments, including reach-forward losses, across all BDS contracts increased Earnings from operations by $91 million and $20 million.

Boeing Military Aircraft

Results of Operations

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $10,518 | $11,059 | $3,537 | $3,438 |
| Earnings from operations | $937 | $1,058 | $440 | $245 |
| Operating margins | 8.9 % | 9.6 % | 12.4 % | 7.1 % |

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Contractual backlog | $21,169 | $23,561 |
| Unobligated backlog | 8,901 | 10,063 |

Revenues

BMA revenues for the nine months ended September 30, 2014 decreased by $541 million when compared with the same period in 2013 primarily due to decreased revenue of $574 million related to lower KC-46A Tanker and F-15 milestones and fewer P-8 and C-17 aircraft deliveries. These decreases were partially offset by higher volume on proprietary programs.

BMA revenues for the three months ended September 30, 2014 increased by $99 million when compared with the same period in 2013 primarily reflecting $547 million related to higher P-8 and F-15 deliveries as well as higher volume on proprietary programs, partially offset by $440 million due to lower KC-46A Tanker milestones and lower volume on the Chinook and Apache programs.

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Earnings From Operations
BMA earnings from operations for the nine months ended September 30, 2014 decreased by $121 million compared to the same period in 2013, primarily due to 2014 charges of $235 million partially offset by increased earnings of $80 million related to higher F-15 deliveries and improved performance on the F/A-18 program. The charges recorded in 2014 included $187 million related to the KC-46A Tanker contract and $48 million to write-off inventory and accrue termination liabilities as a result of our 2014 decision to produce three fewer C-17 aircraft in 2015 than previously planned. See Note 9. In addition, in 2013 we recorded a charge of $64 million to write off inventory and accrue termination liabilities as a result of The Republic of Korea's announcement to restart its F-X fighter aircraft competition. Net favorable cumulative contract catch-up adjustments were $115 million lower in the nine months ended September 30, 2014 than in the same period in 2013 primarily driven by the reach-forward loss on the KC-46A Tanker contract.
BMA earnings from operations for the three months ended September 30, 2014 increased by $195 million compared to the same period in 2013 primarily due to higher deliveries on the P-8 and F-15 programs as well as higher volume on proprietary programs, improved performance on the F/A-18 and C-17 programs and the absence of the F-X fighter aircraft charge recorded in the third quarter of 2013. Net favorable cumulative contract catch-up adjustments were $59 million higher in the three months ended September 30, 2014 than in the same period in 2013.
Backlog
BMA total backlog of $30,070 million at September 30, 2014 decreased by 11% from December 31, 2013, reflecting revenue recognized on contracts awarded in prior years, partially offset by contract awards for the F-18, P-8 and Apache programs.
Additional Considerations
C-17 and F/A-18 See the discussions of the C-17 and F/A-18 programs in Note 9 to our Condensed Consolidated Financial Statements.
KC-46A Tanker See the discussion of the KC-46A Tanker program on page 35.
Network & Space Systems
Results of Operations

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $5,823 | $6,240 | $2,027 | $2,231 |
| Earnings from operations | $507 | $486 | $189 | $193 |
| Operating margins | 8.7 % | 7.8 % | 9.3 % | 8.7 % |

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Contractual backlog | $8,774 | $9,832 |
| Unobligated backlog | 4,680 | 6,076 |

Revenues
N&SS revenues for the nine months ended September 30, 2014 decreased by $417 million compared with the same period in 2013 primarily due to a reduction of $576 million related to lower volume in several Electronic and Information Solutions (E&IS), government satellite and proprietary programs, partially offset by $151 million related to higher volume on the Space Launch System (SLS) and GMD programs.

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N&SS revenues for the three months ended September 30, 2014 decreased $204 million compared with the same period in 2013 primarily due to a reduction of $269 million related to lower volume on United Launch Alliance (ULA), lower government satellite program milestones and lower volume on several E&IS programs. These decreases were partially offset by an increase of $112 million related to higher milestone volume on several commercial satellite programs.

Earnings From Operations

N&SS earnings from operations for the nine months ended September 30, 2014 increased by $21 million compared with the same period in 2013 primarily due to increases of $87 million related to higher earnings from our ULA joint venture and several government satellite programs as well as higher volume on the SLS program. These increases were partially offset by reductions of $75 million due to lower milestone volume and program mix on several commercial satellite programs. Net favorable cumulative contract catch-up adjustments were $41 million higher in the nine months ended September 30, 2014 than in the same period in 2013.

N&SS earnings from operations for the three months ended September 30, 2014 decreased by $4 million compared with the same period in 2013 primarily due to lower milestone volume and performance, partially offset by higher equity earnings of $25 million. Net favorable cumulative contract catch-up adjustments were $16 million lower in the three months ended September 30, 2014 than in the same period in 2013.

N&SS earnings from operations include equity earnings of $163 million and $74 million for the nine and three months ended September 30, 2014 compared to $122 million and $49 million for the same periods in 2013 primarily from the ULA joint venture.

Backlog

N&SS total backlog was $13,454 million at September 30, 2014, reflecting a decrease of 15% from December 31, 2013 primarily due to revenue recognized on contracts awarded in prior years, partially offset by current year contract awards for missile defense system and commercial satellite programs.

Additional Considerations

United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 5, 9 and 10 of our Condensed Consolidated Financial Statements.

Sea Launch See the discussion of the Sea Launch receivables in Note 8 to our Condensed Consolidated Financial Statements.

LightSquared See the discussion of the LightSquared, LP receivables in Note 4 to our Condensed Consolidated Financial Statements.

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Global Services & Support
Results of Operations

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $6,952 | $7,043 | $2,349 | $2,377 |
| Earnings from operations | $772 | $737 | $227 | $235 |
| Operating margins | 11.1 % | 10.5 % | 9.7 % | 9.9 % |

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Contractual backlog | $15,510 | $16,288 |
| Unobligated backlog | 843 | 1,468 |

Revenues
GS&S revenues for the nine months ended September 30, 2014 decreased by $91 million compared with the same period in 2013 primarily due to decreases of $153 million related to lower volume in Integrated Logistics (IL) programs, partially offset by increases of $64 million in Maintenance, Modification and Upgrades (MM&U) programs primarily related to AEW&C deliveries in 2014.
GS&S revenues for the three months ended September 30, 2014 decreased by $28 million compared with the same period in 2013 primarily due to lower volume of $81 million in IL programs, partially offset by an increase of $48 million in MM&U programs primarily related to Airborne Warning and Control Systems and AEW&C deliveries in 2014.
Earnings From Operations
GS&S earnings from operations for the nine months ended September 30, 2014 increased by $35 million compared with the same period in 2013. Net favorable cumulative contract catch-up adjustments were $74 million higher in the nine months ended September 30, 2014 than in the same period in 2013 primarily due to improved performance on the AEW&C program.
GS&S earnings from operations for the three months ended September 30, 2014 decreased by $8 million compared with the same period in 2013 primarily due to decreases of $25 million related to lower volume on several IL programs. Net favorable cumulative contract catch-up adjustments were $28 million higher in the three months ended September 30, 2014 than in the same period in 2013 primarily due to improved performance on the AEW&C program.
Backlog
GS&S total backlog was $16,353 million at September 30, 2014, reflecting a decrease of 8% from December 31, 2013 primarily due to revenues recognized on contracts awarded in prior years, partially offset by current year contract awards for support on the C-17 and AEW&C programs.

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Boeing Capital
Operating Results

| (Dollars in millions) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $263 | $303 | $91 | $94 |
| Earnings/(loss) from operations | $66 | $98 | ($11) | $35 |
| Operating margins | 25% | 32% | (12)% | 37% |

Revenues
BCC segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC’s revenues for the nine months ended September 30, 2014 decreased by $40 million compared with the same period in 2013 primarily due to a lower portfolio balance and adjustments to estimated residual values.
Earnings From Operations
BCC’s earnings from operations are presented net of interest expense, recovery of losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from operations for the nine months ended September 30, 2014 decreased by $32 million compared with the same period in 2013 due to lower revenues and higher asset impairment expense offset by a reduction of $19 million in the allowance for losses on receivables driven by a change to a customer credit rating recorded in the first quarter of 2014. BCC's earnings for the three months ended September 30, 2014 decreased by $46 million compared with the same period in 2013 due to higher asset impairment expense.
Financial Position
The following table presents selected financial data for BCC:

| (Dollars in millions) | September 30 2014 | December 31 2013 |
|---|---|---|
| Customer financing and investment portfolio, net | $3,533 | $3,883 |
| Other assets, primarily cash and short-term investments | 747 | 505 |
| Total assets | $4,280 | $4,388 |
| | | |
| Other liabilities, primarily deferred income taxes | $1,258 | $1,296 |
| Debt, including intercompany loans | 2,524 | 2,577 |
| Equity | 498 | 515 |
| Total liabilities and equity | $4,280 | $4,388 |
| | | |
| Debt-to-equity ratio | 5.1-to-1 | 5.0-to-1 |

BCC’s customer financing and investment portfolio at September 30, 2014 decreased from December 31, 2013 primarily due to portfolio run-off, partially offset by $335 million due to the origination of notes receivable. At September 30, 2014 and December 31, 2013, BCC had $26 million and $83 million of assets that were held for sale or re-lease. In addition, aircraft subject to leases with a carrying value of approximately $44 million are scheduled to be returned off lease in the next 12 months. We are seeking to remarket these aircraft or have the leases extended.

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

Restructurings and Restructuring Requests

From time to time, certain customers have requested a restructuring of their transactions with BCC. Since December 31, 2013, BCC has not reached agreement on any restructuring requests that would have a material effect on our earnings, cash flows and/or financial position.

Liquidity and Capital Resources

Cash Flow Summary

| (Dollars in millions) | Nine months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Net earnings | $3,980 | $3,352 |
| Non-cash items | 1,683 | 1,452 |
| Changes in working capital | (1,803) | 1,995 |
| Net cash provided by operating activities | 3,860 | 6,799 |
| Net cash provided/(used) by investing activities | 1,034 | (4,082) |
| Net cash used by financing activities | (7,294) | (2,993) |
| Effect of exchange rate changes on cash and cash equivalents | (33) | (24) |
| Net decrease in cash and cash equivalents | (2,433) | (300) |
| Cash and cash equivalents at beginning of year | 9,088 | 10,341 |
| Cash and cash equivalents at end of period | $6,655 | $10,041 |

Operating Activities Net cash provided by operating activities was $3.9 billion during the nine months ended September 30, 2014, a decrease of $2.9 billion compared with the same period in 2013 primarily due to lower receipts of advances and progress billings and higher inventory growth. Our investment in gross inventories increased by $7.0 billion and $5.3 billion during the nine months ended September 30, 2014 and 2013 reflecting continued investment in commercial airplane program inventory, primarily 787 inventory. Discretionary contributions to our pension plans totaled $0.75 billion and $1.5 billion during the nine months ended September 30, 2014 and 2013.

Investing Activities Cash provided by investing activities totaled $1.0 billion during the nine months ended September 30, 2014 compared with $4.1 billion used during the same period in 2013, largely due to higher net proceeds from investments in time deposits. Net proceeds from investments were $2.7 billion in 2014 compared with net contributions to investments of $2.6 billion for the same period in 2013. In 2014, capital expenditures totaled $1.6 billion, compared with $1.5 billion for the same period in the prior year. We expect capital expenditures to be higher in 2014 than 2013 due to continued investment to support growth.

Financing Activities Cash used by financing activities was $7.3 billion during the nine months ended September 30, 2014 compared with $3.0 billion in the same period in 2013, an increase primarily due to higher share repurchases of $3.2 billion. During the nine months ended September 30, 2014, we repurchased 38.8 million shares totaling $5 billion through our open market share repurchase program. In addition, 0.7 million shares were transferred to us from employees for tax withholdings.

During the nine months ended September 30, 2014, we repaid $0.9 billion of debt. At September 30, 2014, the recorded balance of debt was $8.9 billion of which $1.6 billion was classified as short-term. This includes $2.5 billion of debt attributable to BCC, of which $0.7 billion was classified as short-term.

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Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We have a commercial paper program that continues to serve as a significant potential source of short-term liquidity. Throughout the nine months ended September 30, 2014, we had no commercial paper borrowings outstanding. Currently, we have $4.8 billion of unused borrowing capacity on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support our general corporate borrowing needs.

Financing commitments totaled $16.7 billion and $18 billion at September 30, 2014 and December 31, 2013. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. In addition, many of our non-U.S. customers finance aircraft purchases through the Export-Import Bank of the United States. In September 2014, the bank’s charter was extended and is now set to expire on June 30, 2015. If the bank’s charter is not renewed or if the bank’s existing or future funding authority is insufficient to meet our customers’ needs, we may fund additional commitments and/or enter into new financing arrangements with customers.

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

At September 30, 2014, we were in compliance with the covenants for our debt and credit facilities. The most restrictive covenants include a limitation on mortgage debt and sale and leaseback transactions as a percentage of consolidated net tangible assets (as defined in the credit agreements), and a limitation on consolidated debt as a percentage of total capital (as defined). When considering debt covenants, we continue to have substantial borrowing capacity.

Off-Balance Sheet Arrangements

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 10 to our Condensed Consolidated Financial Statements.

Contingent Obligations

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

Legal Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 16 to our Condensed Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $638 million at September 30, 2014. For additional information, see Note 9 to our Condensed Consolidated Financial Statements.

Income Taxes We have recorded a liability of $1,526 million at September 30, 2014 for uncertain tax positions. For further discussion of income taxes, see Note 3 to our Condensed Consolidated Financial Statements.

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## Non-GAAP Measures

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

Our unaudited condensed consolidated interim financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Core operating earnings, core operating margin and core earnings per share exclude the impact of unallocated pension and other postretirement benefit expenses which represent costs not attributable to business segments - see Note 17 to our Condensed Consolidated Financial Statements. Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost, primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

### Reconciliation of GAAP Measures to Non-GAAP Measures

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

| (Dollars in millions, except per share data) | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $66,294 | $62,838 | $23,784 | $22,130 |
| Earnings from operations, as reported | $5,448 | $5,047 | $2,119 | $1,803 |
| Operating margins | 8.2 % | 8.0 % | 8.9 % | 8.1 % |
| | | | | |
| Unallocated pension and other postretirement benefit expense | $1,068 | $991 | $311 | $340 |
| Core operating earnings (non-GAAP) | $6,516 | $6,038 | $2,430 | $2,143 |
| Core operating margins (non-GAAP) | 9.8 % | 9.6 % | 10.2 % | 9.7 % |
| | | | | |
| Diluted earnings per share, as reported | $5.36 | $4.36 | $1.86 | $1.51 |
| Unallocated pension and other postretirement benefit expense (1) | $0.94 | $0.84 | $0.28 | $0.29 |
| Core earnings per share (non-GAAP) | $6.30 | $5.20 | $2.14 | $1.80 |
| Weighted average diluted shares (in millions) | 742.3 | 769.8 | 731.9 | 769.1 |

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

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Other

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Securities Exchange Act of 1934, as amended (the “Act”), require disclosure of certain activities, transactions or dealings relating to Iran that occurred during the quarter covered by this report. Disclosure is required even if the activities, transactions or dealings were conducted in compliance with applicable law. During the third quarter of 2014, we sold aircraft manuals, drawings, and navigation charts and data to Iran Air. These sales were authorized by a license from the U.S. Office of Foreign Assets Control (“OFAC”). Boeing applied for the OFAC license consistent with guidance from the U.S. Government in connection with ongoing negotiations between the “P5+1” nations and Iran related to, among other things, the safety of Iran’s civil aviation industry. We generated approximately $120 thousand in gross revenues and $12 thousand net profits during the third quarter from these sales. We may engage in additional sales pursuant to this license, which sales may require additional disclosure pursuant to Section 13(r) of the Act.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our market risk since December 31, 2013.

Item 4. Controls and Procedures

(a)Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of September 30, 2014 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b)Changes in Internal Control Over Financial Reporting.

There were no changes that occurred during the third quarter of 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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## Part II. Other Information

### Item 1. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 16 to our Condensed Consolidated Financial Statements, which is hereby incorporated by reference.

### Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended September 30, 2014 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

| | (a)<br>Total Number of Shares Purchased [1] | (b)<br>Average Price Paid per Share | (c)<br>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d)<br>Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs [2] |
|---|---|---|---|---|
| 7/1/2014 thru 7/31/2014 | 1,993,732 | $127.07 | 1,967,975 | $6,563 |
| 8/1/2014 thru 8/31/2014 | 4,779,934 | 123.63 | 4,762,147 | 5,974 |
| 9/1/2014 thru 9/30/2014 | 1,299,699 | 126.50 | 1,291,261 | 5,811 |
| Total | 8,073,365 | $124.94 | 8,021,383 | |

(1) We purchased an aggregate of 8,021,383 shares of our common stock in the open market pursuant to our repurchase program and 51,982 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We purchased no shares in swap transactions.

(2) On December 16, 2013, the Board approved a new repurchase plan (the Program) for up to $10 billion of common stock. Unless terminated earlier by a Board resolution, the Program will expire when we have used all authorized funds for repurchase.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.

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Item 6. Exhibits

| | |
|---|---|
| 10(i) | Summary of Non-Employee Director Compensation. |
| 10(ii) | Supplemental Benefit Plan for Employees of The Boeing Company, as amended and restated on August 25, 2014, effective March 1, 2014. |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 15 | Letter from Independent Registered Public Accounting Firm regarding unaudited interim financial information. |
| 31(i) | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(ii) | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(i) | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(ii) | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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Signature

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

THE BOEING COMPANY
(Registrant)

| | |
|---|---|
| October 22, 2014 | /s/ Robert E. Verbeck |
| (Date) | Robert E. Verbeck – Vice President of Finance and Corporate Controller |