BOEING CO
Form 10-Q
July 25, 2018

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

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

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

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

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

THE BOEING COMPANY
FORM 10-Q
For the Quarter Ended June 30, 2018
INDEX

Part II. Other Information

Table of Contents

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

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

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

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

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

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

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

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

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

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

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

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

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

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

Table of Contents

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

Note 1 – Basis of Presentation

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

Standards Issued and Not Yet Implemented

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

Standards Issued and Implemented

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

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

ASU 2014-09 In the first quarter of 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method. Topic 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services.

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

Table of Contents

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

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

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

Significant Accounting Policies - Update

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

Revenue and Related Cost Recognition

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

Concession sharing arrangements We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction of the transaction price and the revenue that is recognized for the related performance obligations. The sales concessions incurred may be partially reimbursed by certain suppliers in accordance with concession sharing arrangements. We record these reimbursements, which are presumed to represent reductions in the price of the vendor’s products or services, as a reduction in Cost of products.

Unbilled Receivables and Advances and Progress Billings

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

Table of Contents

Note 2 - Impact of Adoption of New Standards

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

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

Condensed Consolidated Statement of Operations (Unaudited)

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

Table of Contents

Condensed Consolidated Statement of Financial Position

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

Condensed Consolidated Statement of Cash Flows (Unaudited)

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

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

* Reported balance excludes restricted amounts

Table of Contents

Condensed Consolidated Statements of Equity (Unaudited)

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

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

Table of Contents

Note 3 – Earnings Per Share

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

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

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

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

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

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

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

(Shares in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Performance awards	2.8	5.2		