

## Notes to Consolidated Financial Statements

(Dollars in millions except per share data)

### Note 1 – Summary of Significant Accounting Policies

#### Principles of Consolidation

Our consolidated financial statements include the accounts of all majority-owned subsidiaries and variable interest entities that are required to be consolidated.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the 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 consolidated financial statements.

#### Operating Cycle

For classification of certain current assets and liabilities, we use the duration of the related contract or program as our operating cycle, which is generally longer than one year and could exceed three years.

#### Revenue and Related Cost Recognition

**Contract Accounting** Contract accounting is used for development and production activities predominately by the three segments within Integrated Defense Systems (IDS). These activities include the following products and systems: military aircraft, helicopters, missiles, space systems, missile defense systems, satellites, and information and battle management systems. The majority of business conducted in the IDS segments is performed under contracts with the U.S. Government and non-U.S. governments that extend over a number of years. Contract accounting involves a judgmental process of estimating the total sales and costs for each contract resulting in the development of estimated cost of sales percentages. For each contract, the amount reported as cost of sales is determined by applying the estimated cost of sales percentage to the amount of revenue recognized.

We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective; they essentially represent an agreement to do a single project for a single customer; they involve interrelated construction activities with substantial common costs; and they are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined contracts.

Sales related to contracts with fixed prices are recognized as deliveries are made, except for certain fixed-price contracts that require substantial performance over an extended period before deliveries begin, for which sales are recorded based on the

attainment of performance milestones. Sales related to contracts in which we are reimbursed for costs incurred plus an agreed upon profit are recorded as costs are incurred. The Federal Acquisition Regulations provide guidance on the types of cost that will be reimbursed in establishing contract price. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

**Program Accounting** Our Commercial Airplanes segment predominately uses program accounting to account for sales and cost of sales related to commercial airplane programs. Program accounting is a method of accounting applicable to products manufactured for delivery under production-type contracts where profitability is realized over multiple contracts and years. Under program accounting, inventoriable production costs, program tooling costs and routine warranty costs are accumulated and charged to cost of sales by program instead of by individual units or contracts. A program consists of the estimated number of units (accounting quantity) of a product to be produced in a continuing, long-term production effort for delivery under existing and anticipated contracts. To establish the relationship of sales to cost of sales, program accounting requires estimates of (a) the number of units to be produced and sold in a program, (b) the period over which the units can reasonably be expected to be produced, and (c) the units' expected sales prices, production costs, program tooling, and routine warranty costs for the total program.

We recognize revenue on sales of commercial airplanes based on the gross amount billed to customers. We recognize sales for commercial airplane deliveries as each unit is completed and accepted by the customer. Sales recognized represent the price negotiated with the customer, adjusted by an escalation formula. The amount reported as cost of sales is determined by applying the estimated cost of sales percentage for the total remaining program to the amount of sales recognized for airplanes delivered and accepted by the customer.

**Concession Sharing Arrangements** We account for sales concessions to our customers in consideration of their purchase of products and services as a reduction to revenue (sales concessions) when the related products and services are delivered. The sales concessions incurred are partially reimbursed by a supplier in accordance with a concession sharing arrangement. Prior to adoption of EITF Issue No. 02-16, *Accounting by a Customer (including a reseller) for Certain Consideration Received from a Vendor* (EITF 02-16), we recognized concessions received from vendors as revenue. Upon adoption of EITF 02-16 on January 1, 2003, in accordance with the transition provisions of the consensus, we recognized concessions received from vendors for new arrangements, including modifications of existing arrangements, as a reduction in Cost of products.

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We continued to apply our previous accounting policy to arrangements entered into prior to December 31, 2002 that were not modified; such arrangements were grandfathered under EITF 02-16 and, accordingly, we continued to recognize concessions associated with these arrangements as revenue.

Effective January 1, 2006, we changed how we account for concessions received from vendors that were grandfathered under EITF 02-16. For the years ended December 31, 2005 and 2004, this change decreased Consolidated and Commercial Airplanes segment Sales of products and Cost of products by \$1,224 and \$1,057 as follows:

Year ended December 31, 2005	As Originally Reported	Effect of Change	As Adjusted
Sales of products	\$ 45,398	\$(1,224)	\$ 44,174
Sales of services	9,447		9,447
<b>Total revenues</b>	<b>\$ 54,845</b>	<b>\$(1,224)</b>	<b>\$ 53,621</b>
Cost of products	\$(38,082)	\$ 1,224	\$(36,858)
Cost of services	(7,767)		(7,767)
BCC interest expense	(359)		(359)
<b>Total cost and expenses</b>	<b>\$(46,208)</b>	<b>\$ 1,224</b>	<b>\$(44,984)</b>

Year ended December 31, 2004	As Originally Reported	Effect of Change	As Adjusted
Sales of products	\$ 43,979	\$(1,057)	\$ 42,922
Sales of services	8,478		8,478
<b>Total revenues</b>	<b>\$ 52,457</b>	<b>\$(1,057)</b>	<b>\$ 51,400</b>
Cost of products	\$(37,921)	\$ 1,057	\$(36,864)
Cost of services	(6,754)		(6,754)
BCC interest expense	(350)		(350)
<b>Total cost and expenses</b>	<b>\$(45,025)</b>	<b>\$ 1,057</b>	<b>\$(43,968)</b>

We believe the newly adopted accounting method is preferable because it aligns our accounting for all concession arrangements with vendors with guidance provided by EITF 02-16. In accordance with EITF 02-16, reimbursements received by a customer from a vendor are presumed to be a reduction in the price of the vendor's products or services and should be treated as a reduction of Cost of products when recognized in the customer's income statement.

As of January 1, 2006, we have also adopted Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154), which requires that changes in accounting policies such as the one described above be applied retrospectively to all periods presented to the extent practicable. Consequently, we have retrospectively adjusted 2005 and 2004 to be consistent with the 2006 presentation. The change had no effect on Earnings from continuing operations, Net earnings, Retained earnings or Shareholders' equity. The change reduced previously reported Sales of products and Cost of products by equal amounts both on a consolidated basis and in our Commercial Airplanes segment.

**Spare Parts Revenue** We recognize sales of spare parts upon delivery and the amount reported as cost of sales is recorded at average cost.

**Service Revenue** Service revenue is recognized when the service is performed with the exception of U.S. Government service agreements, which are accounted for using contract accounting. Service activities primarily include the following: Delta launches, ongoing maintenance of International Space Station and Space Shuttle, support agreements associated with military aircraft and helicopter contracts and technical and flight operation services for commercial aircraft. Lease and financing revenue arrangements are also included in Sales of services on the Consolidated Statements of Operations. Service revenue and associated cost of sales from pay-in-advance subscription fees are deferred and recognized as services are rendered.

**Financial Services Revenue** We recognize financial services revenue associated with sales-type finance leases, operating leases, and notes receivable.

For sales-type finance leases we record an asset at lease inception. This asset is recorded at the aggregate future minimum lease payments, estimated residual value of the leased equipment and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed periodically, represent the estimated amount we expect to receive at lease termination from the disposition of leased equipment. Actual residual values realized could differ from these estimates. Declines in estimated residual value that are deemed other than temporary are recognized as Cost of services in the period in which the declines occur.

For operating leases, revenue on leased aircraft and equipment representing rental fees and financing charges are recorded on a straight-line basis over the term of the lease. Operating lease assets, included in Customer financing, are recorded at cost and depreciated over either the term of the lease or the economic useful life of the asset to an estimated residual or salvage value based on our intent to hold or dispose of the equipment before the end of its economic useful life, using the straight-line method. Prepayments received on operating lease contracts are classified as Deferred lease income on the Consolidated Statements of Financial Position. We periodically review our estimates of residual value and recognize forecasted decreases in residual value by prospectively adjusting depreciation expense.

For notes receivable, notes are recorded net of any unamortized discounts and deferred incremental direct costs. Interest income and amortization of any discounts are recorded ratably over the related term of the note.

**Reinsurance Revenue** Our wholly-owned insurance subsidiary, Astro Ltd., participates in a reinsurance pool for workers' compensation. The member agreements and practices of the reinsurance pool minimize any participating members' individual risk. Reinsurance revenues were \$84 and \$101 during 2006 and 2005, respectively. Reinsurance costs related to premiums and claims paid to the reinsurance pool were \$91 and \$115 during 2006 and 2005, respectively. Both revenues and costs are presented net in Cost of services in the Consolidated Statements of Operations.

### Fleet Support

We provide the operators of all our commercial airplane models assistance and services to facilitate efficient and safe aircraft operation. Collectively known as fleet support services, these activities and services include flight and maintenance training, field service support costs, engineering services and technical data and documents. Fleet support activity begins prior to aircraft delivery as the customer receives training, manuals and technical consulting support, and continues throughout the operational life of the aircraft. Services provided after delivery include field service support, consulting on maintenance, repair, and operational issues brought forth by the customer or regulators, updating manuals and engineering data, and the issuance of service bulletins that impact the entire model's fleet. Field service support involves our personnel located at customer facilities providing and coordinating fleet support activities and requests. The costs for fleet support are expensed as incurred as Cost of services.

### Research and Development

Research and development (R&D) includes costs incurred for experimentation, design and testing and are expensed as incurred unless the costs are related to certain contractual arrangements. Costs that are incurred pursuant to such contractual arrangements are recorded over the period that revenue is recognized, consistent with our contract accounting policy. We have certain research and development arrangements that meet the requirement for best efforts research and development accounting. Accordingly, the amounts funded by the customer are recognized as an offset to our research and development expense rather than as contract revenues.

We have established cost sharing arrangements with some suppliers for the 787 program, which have enhanced our internal development capabilities and have offset a substantial portion of the financial risk of developing this aircraft. Our cost sharing arrangements explicitly state that the supplier contributions are for reimbursements of costs we incur for experimentation, basic design and testing activities during the development of the 787. In each arrangement, we retain substantial rights to the 787 part or component covered by the arrangement. The amounts received from these cost sharing arrangements are recorded as a reduction to research and development expenses since we have no obligation to refund any amounts received per the arrangements regardless of the outcome of the development efforts. Specifically, under the terms of each agreement, payments received from suppliers for their share of the costs are typically based on milestones and are recognized as earned when we achieve the milestone events and no ongoing obligation on our part exists. In the event we receive a milestone payment prior to the completion of the milestone, the amount will be classified in Accounts payable and other liabilities until earned.

### Share-based Compensation

Our primary types of share-based compensation consist of Performance Shares, ShareValue Trust distributions, stock options and other stock unit awards.

In 2005 we adopted the provisions of SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R) using the modified prospective method. Prior to 2005, we used a fair value based method of accounting for share-based compensation provided to our employees in accordance with SFAS No. 123. (See Note 16).

### Income Taxes

Provisions for federal, state and non-U.S. income taxes are calculated on reported Earnings before income taxes based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes rather than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for income tax when, despite the belief that our tax positions are fully supportable, we believe that it is probable that our positions will be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

### Postretirement Plans

We sponsor various pension plans covering substantially all employees. We also provide postretirement benefit plans other than pensions, consisting principally of healthcare coverage to eligible retirees and qualifying dependents. Benefits under the pension and other postretirement benefit plans are generally based on age at retirement and years of service and for some pension plans, benefits are also based on the employee's annual earnings. The net periodic cost of our pension and other postretirement plans is determined using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return, and medical trend (rate of growth for medical costs). A portion of net periodic pension and other postretirement income or expense is not recognized in net earnings in the year incurred because it is allocated to production as product costs, and reflected in inventory at the end of a reporting period. If gains and losses, which occur when actual experience differs from actuarial assumptions, exceed ten percent of the greater of plan assets or plan liabilities we amortize them over the average future service period of employees.

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Effective December 31, 2006, we adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158) which requires that the Consolidated Statements of Financial Position reflect the funded status of the pension and postretirement plans. In future reporting periods, the difference between actual amounts and estimates based on actuarial assumptions will be recognized in Other comprehensive loss in the period in which they occur.

### Postemployment Plans

We record a liability for postemployment benefits, such as severance or job training, when payment is probable, the amount is reasonably estimable, and the obligation relates to rights that have vested or accumulated.

### Environmental Remediation

We are subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. We routinely assess, based on in-depth studies, expert analyses and legal reviews, our contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and of recoveries from insurance carriers. Our policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on our best estimate within a range of potential exposure for investigation, cleanup and monitoring costs to be incurred.

### Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments, such as certificates of deposit, time deposits, and other money market instruments, which have original maturities of less than three months. We aggregate our cash balances by bank, and reclassify any negative balances to a liability account presented as a component of Accounts payable and other liabilities.

### Inventories

Inventoried costs on commercial aircraft programs and long-term contracts include direct engineering, production and tooling costs, and applicable overhead, which includes fringe benefits, production related indirect and plant management salaries and plant services, not in excess of estimated net realizable value. To the extent a material amount of such costs are related to an abnormal event or are fixed costs not appropriately attributable to our programs or contracts, they will be expensed in the current period rather than inventoried. In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year. Included in inventory for federal government contracts is an allocation of allowable costs related to manufacturing process re-engineering. We net advances and progress billings

on long-term contracts against costs incurred to date for each contract in the Consolidated statements of financial position. Contracts where costs incurred to date exceed advances and progress billings are reported in Inventories, net of advances and progress billings. Contracts where advances and progress billings exceed costs incurred to date are reported in Advances and billings in excess of related costs.

Because of the higher unit production costs experienced at the beginning of a new or derivative commercial airplane program (known as the learning curve effect), the actual costs incurred for production of the early units in the program may exceed the amount reported as cost of sales for those units. In addition, the use of a total program gross profit rate to delivered units may result in costs assigned to delivered units in a reporting period being less than the actual cost of those units. The excess actual costs incurred over the amount reported as cost of sales is disclosed as deferred production costs, which are included in inventory along with unamortized tooling costs.

The determination of net realizable value of long-term contract costs is based upon quarterly contract reviews that determine an estimate of costs to be incurred to complete all contract requirements. When actual contract costs and the estimate to complete exceed total estimated contract revenues, a loss provision is recorded. The determination of net realizable value of commercial aircraft program costs is based upon quarterly program reviews that determine an estimate of revenue and cost to be incurred to complete the program accounting quantity. When estimated costs to complete exceed estimated program revenues to go, a loss provision is recorded.

Used aircraft purchased by the Commercial Airplanes segment and general stock materials are stated at cost not in excess of net realizable value. See "Aircraft valuation" within this Note for our valuation of used aircraft purchased by the Commercial Airplanes segment. Spare parts inventory is stated at lower of average unit cost or market. We review our commercial spare parts and general stock materials each quarter to identify impaired inventory, including excess or obsolete inventory, based on historical sales trends, expected production usage, and the size and age of the aircraft fleet using the part. Impaired inventories are written-off as an expense to Cost of products in the period the impairment occurs.

Included in inventory for commercial aircraft programs are amounts paid or credited in cash, or other consideration to certain airline customers, that are referred to as early issue sales consideration. Early issue sales consideration is recognized as a reduction to revenue when the delivery of the aircraft under contract occurs. In the unlikely situation that an airline customer was not able to perform and take delivery of the contracted aircraft, we believe that we would have the ability to recover amounts paid through retaining amounts secured by advances received on aircraft to be delivered. However, to the extent early issue sales consideration exceeds advances and is not considered to be recoverable it would be recognized as a current period expense.

### Precontract Costs

We may, from time to time, incur costs to begin fulfilling the statement of work under a specific anticipated contract that we are still negotiating with a customer. If we determine it is probable that we will be awarded the specific anticipated contract, then we capitalize the precontract costs we incur, excluding any start-up costs which are expensed as incurred. Capitalized precontract costs of \$40 and \$39 at December 31, 2006, and 2005, are included in Inventories, net of advances and progress billings in the accompanying Consolidated Statements of Financial Position.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, less accumulated depreciation and are depreciated principally over the following estimated useful lives: new buildings and land improvements, from 10 to 40 years; and new machinery and equipment, from 3 to 20 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years' digits. Capitalized internal use software is included in Other assets and amortized using the straight line method over five years. We periodically evaluate the appropriateness of remaining depreciable lives assigned to long-lived assets, including assets that may be subject to a management plan for disposition.

We review long-lived assets, which include property, plant and equipment, for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Long-lived assets held for use are subject to an impairment assessment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

### Asset Retirement Obligations

On December 31, 2005, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143* (FIN 47). In accordance with FIN 47, we record all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts are not material.

We also have known conditional asset retirement obligations, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, these

obligations have not been recorded in the Consolidated Financial Statements. A liability for these obligations will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value. In addition, there may be conditional asset retirement obligations that we have not yet discovered (e.g., asbestos may exist in certain buildings but we have not become aware of it through the normal course of business), and therefore, these obligations also have not been included in the consolidated financial statements.

### Goodwill and Other Acquired Intangibles

Goodwill and other acquired intangible assets with indefinite lives are not amortized, but are tested for impairment annually and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. Our annual testing date is April 1. In conjunction with our January 1, 2006 IDS segment realignment, we performed a goodwill impairment test in addition to our annual goodwill impairment test. Both tests resulted in no identified impairments.

We test goodwill for impairment by first comparing the carrying value of net assets to the fair value of the related operations. If the fair value is determined to be less than carrying value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

Our finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: developed technology, 5 to 12 years; product know-how, 30 years; customer base, 12 to 15 years; and other, 2 to 17 years. In accordance with SFAS No. 144, we evaluate the potential impairment of finite-lived acquired intangible assets when appropriate. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

### Investments

We classify investments as either operating or non-operating. Operating investments are strategic in nature, which means they are integral components of our operations. Non-operating investments are those we hold for non-strategic purposes. Earnings from operating investments, including our share of income or loss from equity method investments, dividend income from certain cost method investments, and any gain/loss on the disposition of these investments, are recorded in Income from operating investments, net. Other income on our Consolidated Statements of Operations consists primarily of income from non-operating investments, such as interest and dividends on marketable securities, as well as interest income related to income taxes. (See Note 6).

Available-for-sale securities including marketable debt and equity securities and Enhanced Equipment Trust Certificates (EETCs) are recorded at their fair values and unrealized gains and losses are reported as part of Accumulated other comprehensive loss on the Consolidated Statements of Financial Position. Realized gains and losses on marketable securities are recognized based on the shares whose cost is closest to our average cost of the specific security. Realized gains and losses on all other available-for-sale securities are recognized based on specific identification.

The fair value of marketable securities is based on quoted market prices. The fair value of non-publicly traded securities, including certain EETCs, is based on discounted cash flows at market yield. In cases when we determine that it is probable that recovery of our investment will come from recovery of collateral, the fair value is based on the underlying collateral.

Available-for-sale securities are assessed for impairment quarterly. To determine if an impairment is other than temporary, we consider the duration of the loss position, the strength of the underlying collateral, the term to maturity, and credit ratings. For investments that are deemed other-than-temporarily impaired, losses are recorded in Cost of products or Cost of services and payments received on these investments are recorded using the cost recovery method.

**Equity Method Investments** The equity method of accounting is used to account for investments for which we have the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of an investee of between 20% and 50%.

### Derivatives

All derivative instruments are recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them. We use derivative instruments to principally manage a variety of market risks. We record our interest rate swaps, non-U.S. currency swaps and commodity contracts at fair value based on discounted cash flow analysis. For derivatives designated as hedges of the exposure to changes in the fair value of a recognized asset or liability or a firm commitment (referred to as fair value hedges), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value. For our cash flow hedges, the effective portion of the derivative's gain or loss is initially reported in shareholders' equity (as a component of Accumulated other comprehensive loss) and is, subsequently, reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of the gain or loss of a cash flow hedge is reported in earnings immediately. We also hold certain instruments for economic purposes that do not qualify for hedge

accounting treatment. For these derivative instruments, as well as other derivatives not receiving hedge accounting treatment, the changes in their fair value are also recorded in earnings.

### Aircraft Valuation

**Used Aircraft Under Trade-in Commitments and Aircraft Under Repurchase Commitments** In conjunction with signing a definitive agreement for the sale of new aircraft (Sale Aircraft), we have entered into specified-price trade-in commitments with certain customers that give them the right to trade in used aircraft upon the purchase of Sale Aircraft. Additionally, we have entered into contingent repurchase commitments with certain customers wherein we agree to repurchase the Sale Aircraft at a specified price, generally ten years after delivery of the Sale Aircraft. Our repurchase of the Sale Aircraft is contingent upon a future, mutually acceptable agreement for the sale of additional new aircraft. If we execute an agreement for the sale of additional new aircraft, and if the customer exercises its right to sell the Sale Aircraft to us, a contingent repurchase commitment would become a trade-in commitment. Our historical experience is that no contingent repurchase agreements have become trade-in commitments.

All trade-in commitments at December 31, 2006 and 2005 are solely attributable to Sale Aircraft and did not originate from contingent repurchase agreements. Exposure related to trade-in commitments may take the form of:

- (1) Adjustments to revenue for the difference between the contractual trade-in price in the definitive agreement and our best estimate of the fair value of the trade-in aircraft as of the date of such agreement, which are recorded in Inventory and recognized upon delivery of the Sale Aircraft, and/or
- (2) Charges to cost of products for adverse changes in the fair value of trade-in aircraft that occur subsequent to signing of a definitive agreement for Sale Aircraft but prior to the purchase of the used trade-in aircraft. Estimates based on current aircraft values are included in Accounts payable and other liabilities.

The fair value of trade-in aircraft is determined using aircraft specific data such as model age and condition, market conditions for specific aircraft and similar models, and multiple valuation sources. This process uses our assessment of the market for each trade-in aircraft, which in most instances begins years before the return of the aircraft. There are several possible markets in which we continually pursue opportunities to place used aircraft. These markets include, but are not limited to, the resale market, which could potentially include the cost of long-term storage; the leasing market, with the potential for refurbishment costs to meet the leasing customer's requirements; or the scrap market. Trade-in aircraft valuation varies significantly depending on which market we determine is most likely for each aircraft. On a quarterly basis, we update our valuation analysis based on the actual activities associated with placing each aircraft into a market. This quarterly valuation process yields results that are typically lower than residual value estimates by independent

sources and tends to more accurately reflect results upon the actual placement of the aircraft.

Used aircraft acquired by the Commercial Airplanes segment are included in Inventories at the lower of cost or market as it is our intent to sell these assets. To mitigate costs and enhance marketability, aircraft may be placed on operating lease. While on operating lease, the assets are included in Customer financing, however, the valuation continues to be based on the lower of cost or market. The lower of cost or market assessment is performed quarterly using the process described above.

### **Asset Valuation for Assets Under Operating Lease, Assets Held for Sale or Re-lease and Collateral Underlying Receivables**

Included in Customer financing are operating lease equipment, notes receivables and sales-type/financing leases. Sales-type/financing leases are treated as receivables, and allowances are established as necessary.

We assess the fair value of the assets we own, including equipment under operating leases, assets held for sale or re-lease and collateral underlying receivables, to determine if their fair values are less than the related assets' carrying values. Differences between carrying values and fair values of finance leases and notes and other receivables, as determined by collateral value, are considered in determining the allowance for losses on receivables.

We use a median calculated from published collateral values from multiple third-party aircraft evaluations based on the type and age of the aircraft to determine the fair value of the aircraft. Under certain circumstances, we apply judgment based on the attributes 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 outside publications.

**Impairment Review for Assets Under Operating Leases and Held for Sale or Re-lease** When events or circumstances indicate, we evaluate assets under operating lease or held for re-lease for impairment utilizing an expected undiscounted cash flow analysis. We use various assumptions when determining the expected undiscounted cash flow including our intention to hold or dispose of an asset before the end of its economic useful life, the expected future lease rates, lease terms, residual value of the aircraft or equipment, periods in which the asset may be held in preparation for a follow-on lease, maintenance costs, remarketing costs and the remaining economic life of the asset. We state assets held for sale at the lower of carrying value or fair value less costs to sell.

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

**Allowance for Losses on Receivables** We record the potential impairment of receivables in our portfolio in a valuation account, the balance of which is an accounting estimate of probable but unconfirmed losses in the receivables portfolio. The

allowance for losses on receivables relates to two components of receivables: (a) specifically identified receivables that are evaluated individually for impairment and (b) all other receivables.

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 of the receivable agreement, without regard to any subsequent restructurings. Factors considered in assessing collectibility include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy. We determine a specific impairment allowance based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral.

We review the adequacy of the allowance attributable to the remaining other receivables (after excluding receivables subject to a specific impairment allowance) by assessing both the collateral exposure and the applicable cumulative default rate. Collateral exposure for a particular receivable is the excess of the carrying value of the receivable over the fair value of the related collateral. A receivable with an estimated fair value in excess of the carrying value is considered to have no collateral exposure. The applicable cumulative default rate is determined using two components: customer credit ratings and weighted average remaining contract term. Credit ratings are determined for each customer in the portfolio. Those ratings are updated based upon public information and information obtained directly from our customers.

We have entered into agreements with certain customers that would entitle us to look beyond the specific collateral underlying the receivable for purposes of determining the collateral exposure as described above. Should the proceeds from the sale of the underlying collateral asset resulting from a default condition be insufficient to cover the carrying value of our receivable (creating a shortfall condition), these agreements would, for example, permit us to take the actions necessary to sell or retain certain other assets in which the customer has an equity interest and use the proceeds to cover the shortfall.

Each quarter, we review customer credit ratings, published historical credit default rates for different rating categories, and third-party aircraft valuations as a basis to validate the reasonableness of the allowance for losses on receivables. There can be no assurance that actual results will not differ from estimates or that the consideration of these factors in the future will not result in an increase or decrease to the allowance for losses on receivables.

### **Supplier Penalties**

We record an accrual for supplier penalties when an event occurs that makes it probable that a supplier penalty will be incurred and the amount is reasonably estimable. Until an event occurs, we fully anticipate accepting all products procured under production related contracts.

## Guarantees

We account for guarantees in accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. We record a liability for the fair value of guarantees in Accounts Payable and other liabilities that are issued or modified after December 31, 2002. For a residual value guarantee where we received a cash premium, the liability is equal to the cash premium received at the guarantee's inception. For credit and performance guarantees, the liability is equal to the present value of the expected loss. For each future period the credit or performance guarantee will be outstanding, we determine the expected loss by multiplying the creditor's default rate by the guarantee amount reduced by the expected recovery, if applicable. If at inception of a guarantee we determine there is a probable related contingent loss, we will recognize a liability for the greater of (a) the fair value of the guarantee as described above or (b) the probable contingent loss amount.

## Note 2—Standards Issued and Not Yet Implemented

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective as of January 1, 2007 and the cumulative effects of applying this Interpretation will be recorded as an adjustment to retained earnings as of January 1, 2007. Additional guidance from the FASB on FIN 48 is pending. As a result, we are currently unable to finalize our estimate of the impact that adopting this Interpretation will have on our financial statements.

## Note 3—Acquisition

On September 20, 2006, we acquired all of the outstanding shares of Aviall, Inc. (Aviall) for \$1,780, including transaction fees totaling \$46. Aviall is an independent provider of new aviation parts and services in the aerospace industry. Its capabilities include global parts distribution and supply chain services for aerospace, defense and marine industries worldwide. The Aviall acquisition is intended to complement existing offerings in our Commercial Airplanes and IDS Support Systems reporting segments. The acquisition of Aviall was accounted for under the purchase method of accounting and the results of operations from the acquisition date are included in Commercial Airplanes and IDS Support Systems reporting segments.

The allocation of the purchase price is as follows:

Accounts receivable	\$ 200
Net inventory	539
Other current assets	64
Property, plant and equipment	17
Goodwill	1,055
Finite-lived intangible assets (primarily contractual supplier and customer relationships)*	519
Indefinite-lived intangible assets not subject to amortization (Aviall brand and trade names)	302
Other assets	42
Accounts payable	(196)
Other current liabilities	(79)
Debt acquired and repaid	(458)
Other long-term liabilities	(225)
<b>Total net assets acquired</b>	<b>\$1,780</b>

\*The weighted average amortization period for finite-lived intangible assets is 11 years.

## Note 4—Goodwill and Acquired Intangibles

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2006, 2005 and 2004 were as follows:

	Commercial Airplanes	Precision Engagement & Mobility Systems	Network & Space Systems	Support Systems	Other	Total
<b>Balance at January 1, 2004</b>	<b>\$ 282</b>	<b>\$588</b>	<b>\$922</b>	<b>\$118</b>	<b>\$3</b>	<b>\$1,913</b>
Goodwill Adjustments		25	2			27
Acquisitions		11				11
Impairment Losses					(3)	(3)
<b>Balance at December 31, 2004</b>	<b>\$ 282</b>	<b>\$624</b>	<b>\$924</b>	<b>\$118</b>		<b>\$1,948</b>
Goodwill Adjustments	21	(13)	(18)	11		1
Divestitures	(23)		(2)			(25)
<b>Balance at December 31, 2005</b>	<b>\$ 280</b>	<b>\$611</b>	<b>\$904</b>	<b>\$129</b>		<b>\$1,924</b>
Aviall acquisition	1,014			41		1,055
Other*	71		(3)			68
<b>Balance at December 31, 2006</b>	<b>\$1,365</b>	<b>\$611</b>	<b>\$901</b>	<b>\$170</b>		<b>\$3,047</b>

\*The increase in goodwill is primarily the result of an acquisition in the second quarter of 2006. The purchase price allocation for this acquisition was finalized in the fourth quarter of 2006.

## Notes to Consolidated Financial Statements

The gross carrying amounts and accumulated amortization of our other acquired finite-lived intangible assets were as follows at December 31:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	\$ 615	\$369	\$ 576	\$312
Product know-how	308	64	308	54
Customer base	307	51	96	34
Other	536	83	173	75
	<b>\$1,766</b>	<b>\$567</b>	\$1,153	\$475

Amortization expense for acquired finite-lived intangible assets for the years ended December 31, 2006 and 2005 was \$100 and \$91. Estimated amortization expense for the five succeeding years are as follows: 2007–\$148; 2008–\$148; 2009–\$147; 2010–\$129; and 2011–\$86.

As of December 31, 2006 and 2005, we had indefinite-lived intangible assets with carrying amounts of \$499 and \$197.

### Note 5 – Earnings Per Share

The weighted average number of shares outstanding (in millions) for the years ended December 31, used to compute earnings per share are as follows:

	2006	2005	2004
Weighted average shares outstanding	760.5	779.4	800.2
Participating securities	10.5	9.1	6.8
Basic weighted average shares outstanding	771.0	788.5	807.0
Diluted potential common shares	16.6	14.4	6.0
Diluted weighted average shares outstanding	787.6	802.9	813.0

The numerator used to compute diluted earnings per share is as follows:

	2006	2005	2004
Net earnings	\$2,215	\$2,572	\$1,872
Expense related to diluted shares	27		
Total numerator	\$2,242	\$2,572	\$1,872

Expense related to diluted shares in the amount of \$27 in 2006 represented mark-to-market adjustment of performance share payouts to employees terminated as of December 31, 2005.

Basic earnings per share is calculated by the sum of (1) net income less declared dividends divided by the basic weighted-average shares outstanding and (2) declared dividends divided by the weighted average shares outstanding.

The weighted average number of shares outstanding for the year ended December 31 (in millions), included in the table below, is excluded from the computation of diluted earnings per share because the average market price did not exceed the exercise/threshold price. However, these shares may be dilutive potential common shares in the future.

	2006	2005	2004
Stock options		0.2	10.9
Stock units	0.1		
Performance Shares	4.0	24.9	28.6
Performance Awards	1.4		
ShareValue Trust	24.6	33.9	38.4

### Note 6 – Income Taxes

The components of earnings before income taxes were:

Year ended December 31,	2006	2005	2004
U.S.	\$3,067	\$2,605	\$1,960
Non-U.S.	127	214	
	<b>\$3,194</b>	\$2,819	\$1,960

Note: The 2004 non-U.S. earnings before income tax amounts are not significant and as such are reflected in the U.S. numbers shown above.

Income tax expense/(benefit) consisted of the following:

Year ended December 31,	2006	2005	2004
Current tax expense			
U.S. federal	\$193	\$(276)	\$(435)
Non-U.S.	35	58	
U.S. state	(58)	(86)	(58)
	170	(304)	(493)
Deferred tax expense			
U.S. federal	750	547	787
Non-U.S.	(6)	(120)	
U.S. state	74	134	(154)
	818	561	633
Total income tax expense	<b>\$988</b>	\$ 257	\$ 140

Note: The 2004 non-U.S. income tax expense/(benefit) amounts are not significant and as such are reflected in the U.S. numbers shown above.

The following is a reconciliation of the U.S. federal statutory tax rate of 35% to our recorded income tax expense/(benefit):

Year ended December 31,	2006	2005	2004
U.S. federal statutory tax	35.0%	35.0%	35.0%
Global Settlement with U.S. Department of Justice Foreign Sales Corporation/	6.7		
Extraterritorial Income tax benefit	(5.8)	(5.6)	(8.6)
Research benefit	(0.7)	(1.2)	(1.4)
Federal audit settlement	(1.5)	(13.1)	(7.5)
State income tax provision, net of effect on U.S. federal tax	0.4	1.1	(7.0)
Change in valuation allowances		(3.2)	
Other provision adjustments	(3.2)	(3.9)	(3.4)
Income tax expense	<b>30.9%</b>	9.1%	7.1%

## Notes to Consolidated Financial Statements

Significant components of our deferred tax assets, net of deferred tax liabilities, at December 31 were as follows:

	2006	2005
Retiree health care accruals	<b>\$ 3,257</b>	\$ 2,314
Inventory and long-term contract methods of income recognition	<b>640</b>	1,368
Other employee benefits accruals	<b>1,473</b>	1,363
In-process research and development related to acquisitions	<b>124</b>	137
Net operating loss, credit, and charitable contribution carryovers (net of valuation allowance of \$2 and \$0)	<b>319</b>	494
Pension benefit accruals	<b>(397)</b>	(3,688)
Customer and commercial financing	<b>(1,517)</b>	(1,442)
Unremitted earnings of non-U.S. subsidiaries	<b>(48)</b>	(32)
Other net unrealized losses	<b>37</b>	8
<b>Net deferred tax assets*</b>	<b>\$ 3,888</b>	\$ 522

\*Of the deferred tax asset for net operating loss and credit carryovers, \$172 expires in years ending from December 31, 2007 through December 31, 2026 and \$147 may be carried over indefinitely.

Net deferred tax assets at December 31 were as follows:

	2006	2005
Deferred tax assets	<b>\$12,174</b>	\$8,168
Deferred tax liabilities	<b>(8,284)</b>	(7,646)
Valuation allowance	<b>(2)</b>	
<b>Net deferred tax assets</b>	<b>\$ 3,888</b>	\$ 522

As a result of acquisitions in 2006, primarily related to Aviall, a net deferred tax liability of \$171 was recorded.

As required under SFAS No.123R, a deferred tax liability of \$306 was reclassified to Additional paid in capital. This represents the tax effect of the net excess tax pool created during 2006 due to share awards paid with a fair market value in excess of the book accrual for those awards.

Net income tax payments/(refunds) were \$28, (\$344) and (\$903) in 2006, 2005 and 2004, respectively.

We have provided for U.S. deferred income taxes and foreign withholding tax in the amount of \$48 on undistributed earnings not considered permanently reinvested in our non-U.S. subsidiaries. We have not provided for U.S. deferred income taxes or foreign withholding tax on the remainder of undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested and it is not practicable to estimate the amount of tax that may be payable upon distribution.

Within the Consolidated Statements of Operations, Other income included interest of \$16 in 2006, \$100 in 2005 and \$219 in 2004 related to federal income tax settlements for prior years.

## Contingencies

We are subject to income taxes in the U.S. and numerous non-U.S. jurisdictions.

Amounts accrued for potential tax assessments recorded in current tax liabilities total \$960 and \$900 at December 31, 2006 and 2005. Accruals relate to tax issues for U.S. federal, U.S. state, and taxation of non-U.S. earnings as follows:

- › The accruals associated with U.S. federal tax issues such as the tax benefits from the Foreign Sales Corporation/Extraterritorial Income (FSC/ETI) tax rules, the amount of research and development tax credits claimed, U.S. taxation of non-U.S. earnings, and valuation issues regarding charitable contributions claimed were \$841 at December 31, 2006, and \$771 at December 31, 2005. IRS examinations have been completed through 2001. We have filed an appeal with the IRS for 1998-2001. During 2006, we settled the McDonnell Douglas Corporation appeal for 1993-1997 which had the effect of decreasing federal income tax expense by \$46.
- › The accruals for domestic state tax issues such as the allocation of income among various state tax jurisdictions and the amount of state tax credits claimed were \$88 at December 31, 2006 and \$98 at December 31, 2005, net of federal benefit.
- › The accruals associated with taxation of non-U.S. earnings were \$31 at December 31, 2006 and 2005.

We believe adequate provisions for all outstanding issues have been made for all jurisdictions and all open years.

## Legislative Update

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was enacted, which repealed the FSC/ETI exclusion tax benefit binding contract provisions of the American Jobs Creation Act of 2004. Therefore, 2006 will be the final year for recognizing any export tax benefits. The 2006 effective tax rate was reduced by 5.8% due to export tax benefits.

Effective December 31, 2005, the U.S. research tax credit expired. On December 20, 2006, President Bush signed into law, the Tax Relief and Health Care Act of 2006 that retroactively renews the research tax credit for 2006 and extends the credit through December 31, 2007.

**Note 7—Accounts Receivable**

Accounts receivable at December 31 consisted of the following:

	2006	2005
U.S. Government contracts	<b>\$2,667</b>	\$2,620
Commercial and customers	<b>1,423</b>	1,155
Other	<b>1,278</b>	1,561
Less valuation allowance	<b>(83)</b>	(90)
	<b>\$5,285</b>	\$5,246

The following table summarizes our accounts receivable under long-term contracts that were not billable or related to outstanding claims as of December 31:

	2006	2005
Unbillable		
Current	<b>\$ 830</b>	\$ 687
Expected to be collected after one year	<b>705</b>	404
	<b>\$1,535</b>	\$1,091
Claims		
Current	<b>\$ 10</b>	\$ 15
Expected to be collected after one year	<b>84</b>	90
	<b>\$ 94</b>	\$ 105

Unbillable receivables on long-term contracts arise when the sales or revenues based on performance attainment, though appropriately recognized, cannot be billed yet under terms of the contract as of the balance sheet date. Accounts receivable related to claims are items that we believe are earned, but are subject to uncertainty concerning their determination or ultimate realization. Accounts receivable, other than those described above, expected to be collected after one year are not material.

As of December 31, 2006 and 2005, other accounts receivable included \$538 and \$621 of reinsurance receivables held by Astro Ltd., a wholly-owned subsidiary, which operates as a captive insurance company. Other also included \$308 and \$650 at December 31, 2006 and 2005, related to non-U.S. military contracts.

**Note 8—Inventories**

Inventories at December 31 consisted of the following:

	2006	2005
Long-term contracts in progress	<b>\$ 12,329</b>	\$ 14,194
Commercial aircraft programs	<b>8,743</b>	7,745
Commercial spare parts, used aircraft, general stock materials and other	<b>2,888</b>	2,235
	<b>23,960</b>	24,174
Less advances and progress billings	<b>(15,855)</b>	(16,296)
	<b>\$ 8,105</b>	\$ 7,878

Included in long-term contracts in progress inventories at December 31, 2006, are Delta launch program inventories of \$1,860 that will be sold at cost to United Launch Alliance L.L.C. (ULA) under an inventory supply agreement that terminates on March 31, 2021. We have agreed to indemnify ULA in the event

that these inventories are not recoverable from existing and future orders; however, based on our assessment of the mission manifest for the Delta launch program, we believe ULA will recover these costs. (See Note 19).

As a normal course of our Commercial Airplanes segment production process, our inventory may include a small quantity of airplanes that are completed but unsold. As of December 31, 2006 and 2005, the value of completed but unsold aircraft in inventory was insignificant. Inventory balances included \$234 subject to claims or other uncertainties relating to the A-12 program as of December 31, 2006 and 2005. (See Note 22).

Commercial aircraft program inventory includes amounts credited in cash or other consideration (early issued sales consideration), to airline customers totaling \$1,375 and \$1,140 as of December 31, 2006 and 2005. As of December 31, 2006 and 2005, early issued sales consideration, net of advance deposits, included \$151 and \$194 related to one financially troubled customer, which we believe is fully recoverable as of December 31, 2006.

Deferred production costs represent commercial aircraft programs and integrated defense programs inventory production costs incurred on in-process and delivered units in excess of the estimated average cost of such units to be produced. As of December 31, 2006 and 2005, the balance of deferred production costs and unamortized tooling related to commercial aircraft programs, except the 777 program, was insignificant relative to the programs' balance-to-go estimates. As of December 31, 2006 and 2005, all significant excess deferred production costs or unamortized tooling costs are recoverable from existing firm orders for the 777 program. The deferred production costs and unamortized tooling are summarized in the following table:

	2006	2005
Deferred production costs:		
777 program	<b>\$871</b>	\$683
Delta II & IV programs		271
Unamortized tooling:		
777 program	<b>329</b>	411
Delta II & IV programs		194

During 2002, we were selected by the US Air Force (USAF) to supply 100 767 Tankers and entered into a preliminary agreement with the USAF for the procurement of the 100 Tankers. During 2004, we recognized pre-tax charges totaling \$275 related to the USAF 767 Tanker program. The charge reflected our updated assessment of securing the specific USAF 767 Tanker contract that was being negotiated, given the continued delay and then likely re-competition of the contract. The charge included inventory write-downs of \$179 (Commercial Airplanes) and \$47 (IDS).

**Note 9 – Exit Activity and Divestitures**

During August 2006, we decided that we would exit the Connexion by Boeing high speed broadband communications business. Our decision resulted in a pre-tax charge of \$320, which has been recognized in Loss/(gain) on dispositions/business shutdown, net during 2006 as outlined below:

Contract termination costs <sup>1</sup>	\$ 142
Write-off of assets <sup>2</sup>	492
Early contract terminations <sup>3</sup>	(314)
<b>Total</b>	<b>\$ 320</b>

<sup>1</sup>Included termination fees associated with operating leases as well as supplier and customer costs

<sup>2</sup>Primarily included write-off of capital lease assets

<sup>3</sup>Primarily early terminations of capital lease obligations

As of December 31, 2006, \$52 was recorded in Accounts payable and other liabilities related to contract termination costs, which we expect to pay in 2007 to complete the business shutdown. The exit of the Connexion by Boeing business resulted in cash expenditures of \$177 during 2006.

On February 28, 2005, we completed the stock sale of Electron Dynamic Devices Inc. (EDD) to L-3 Communications. EDD was a separate legal entity wholly owned by us. The corresponding net assets of the entity were \$45 and a net pre-tax gain of \$25 was recorded in the Network and Space Systems (N&SS) segment of IDS from the sale of the net assets. In addition, there was a related pre-tax loss of \$68 recorded in Accounting differences/eliminations for net pension and other postretirement benefit curtailments and settlements. In 2006, a \$15 gain was recorded for a subsequent purchase price adjustment on the sale.

On August 2, 2005, we completed the sale of the Rocketdyne Propulsion and Power (Rocketdyne) business to United Technologies Corporation for cash proceeds of approximately \$700 under an asset purchase agreement. This divestiture includes assets and sites in California, Alabama, Mississippi, and Florida. The Rocketdyne business primarily develops and builds rocket engines and provides booster engines for the space shuttle and the Delta family as well as propulsion systems for missile defense systems. We recorded the sale in the quarter ending September 30, 2005, and the 2005 net pre-tax gain of approximately \$578, predominantly in the N&SS segment. In addition, we recorded a related pre-tax loss of \$200 for estimated pension and postretirement curtailments and settlements in the fourth quarter of 2005 in our Other segment.

On June 16, 2005, we completed the sale of substantially all of the assets at our Commercial Airplanes facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma under an asset purchase agreement to a new entity which was, subsequently, named Spirit Aerosystems, Inc. (Spirit). Transaction consideration given to us included cash of approximately \$900, together with the transfer of certain liabilities and long-term supply

agreements that provide us with ongoing cost savings. The consolidated net loss on this sale recorded in 2005 was \$287, including pension and postretirement impacts. We recognized a loss of \$103 in 2005 in the Consolidated Statement of Operations as Gain on dispositions, net, of which \$68 was recognized by the Commercial Airplanes segment and \$35 was recognized as Accounting differences/eliminations and Unallocated expense. The remaining loss of \$184 related to estimated pension and postretirement curtailments and settlements, was recorded in our Other segment in the third quarter of 2005. In 2006, a \$15 gain was recorded for a subsequent purchase price adjustment on the sale.

See Note 19 for discussion of the environmental indemnification provisions of these agreements.

The following table summarizes the asset and liability balances related to the Rocketdyne and Wichita/Tulsa divestitures for 2005:

	Rocketdyne	Wichita/ Tulsa
<b>Assets</b>		
Accounts receivable	\$ 62	
Inventory	72	\$ 467
Property, plant and equipment	96	523
Other assets	3	38
Prepaid pension expense	228	250
	<u>\$461</u>	<u>\$1,278</u>
<b>Liabilities</b>		
Accounts payable	\$ 14	\$ 48
Employment and other	13	46
Environmental	12	
Accrued retiree health care liability	28	66
	<u>\$ 67</u>	<u>\$ 160</u>

During 2004, BCC sold substantially all of the assets related to its Commercial Financial Services business, which is reflected as discontinued operations. Revenues were \$3 and \$96 for the years ended December 31, 2005 and 2004.

**Note 10 – Customer Financing**

Customer financing at December 31 consisted of the following:

	2006	2005
<b>Aircraft financing</b>		
Notes receivable	<b>\$1,790</b>	\$ 2,292
Investment in sales-type/finance leases	<b>2,914</b>	3,036
Operating lease equipment, at cost, less accumulated depreciation of \$913 and \$881	<b>4,159</b>	4,617
<b>Other equipment financing</b>		
Notes receivable	<b>33</b>	33
Operating lease equipment, at cost, less accumulated depreciation of \$149 and \$106	<b>248</b>	302
Less allowance for losses on receivables	<b>(254)</b>	(274)
	<u><b>\$8,890</b></u>	<u>\$10,006</u>

## Notes to Consolidated Financial Statements

The components of investment in sales-type/finance leases at December 31 were as follows:

	2006	2005
Minimum lease payments receivable	<b>\$ 4,475</b>	\$ 4,778
Estimated residual value of leased assets	<b>701</b>	690
Unearned income	<b>(2,262)</b>	(2,432)
	<b>\$ 2,914</b>	\$ 3,036

Interest rates on fixed-rate notes ranged from 5.99% to 11.42%, and interest rates on variable-rate notes ranged from 7.40% to 11.43%.

Aircraft financing operating lease equipment primarily includes jet and commuter aircraft. At December 31, 2006 and 2005, aircraft financing operating lease equipment included \$259 and \$11 of equipment available for re-lease. At December 31, 2006 and 2005, we had firm lease commitments for \$253 and \$6 of this equipment.

When our Commercial Airplanes segment is unable to immediately sell used aircraft, it may place the aircraft under an operating lease. It may also finance the sale of new aircraft with a note receivable. The carrying amount of the Commercial Airplanes segment used aircraft under operating leases and aircraft sales financed with notes receivable included as a component of customer financing totaled \$480 and \$640 as of December 31, 2006 and 2005.

Impaired receivables and the allowance for losses on those receivables consisted of the following at December 31:

	2006	2005
Impaired receivables with no specific impairment allowance	<b>\$1,032</b>	\$1,008
Impaired receivables with specific impairment allowance	<b>74</b>	503
Allowance for losses on impaired receivables	<b>20</b>	51

The average recorded investment in impaired receivables as of December 31, 2006, 2005 and 2004, was \$1,191, \$1,196, and \$1,940, respectively. Income recognition is generally suspended for receivables at the date full recovery of income and principal becomes doubtful. Income is recognized when receivables become contractually current and performance is demonstrated by the customer. Interest income recognized on such receivables was \$104, \$90, and \$118 for the years ended December 31, 2006, 2005 and 2004, respectively.

The change in the allowance for losses on receivables for the years ended December 31, 2006, 2005 and 2004, consisted of the following:

	Allowance for Losses
Beginning balance—January 1, 2004	\$(404)
Charge to costs and expenses	(45)
Reduction in customer financing assets	46
Ending balance—December 31, 2004	(403)
Charge to costs and expenses	(73)
Reduction in customer financing assets	202
Ending balance—December 31, 2005	\$(274)
Charge to costs and expenses	(32)
Reduction in customer financing assets	52
<b>Ending balance—December 31, 2006</b>	<b>\$(254)</b>

Aircraft financing is collateralized by security in the related asset. The value of the collateral is closely tied to commercial airline performance and may be subject to reduced valuation with market decline. Our financing portfolio has a concentration of various model aircraft. Aircraft financing related to major aircraft concentrations at December 31 were as follows:

	2006	2005
717 Aircraft (\$760 and \$621 accounted for as operating leases)*	<b>\$2,595</b>	\$2,490
757 Aircraft (\$904 and \$958 accounted for as operating leases)*	<b>1,167</b>	1,245
767 Aircraft (\$201 and \$309 accounted for as operating leases)	<b>740</b>	910
MD-11 Aircraft (\$555 and \$580 accounted for as operating leases)*	<b>645</b>	672
737 Aircraft (\$550 and \$705 accounted for as operating leases)	<b>583</b>	796

\*Out of production aircraft

We recorded charges related to customer financing asset impairment in operating earnings, primarily as a result of declines in projected future cash flows. These charges for the years ended December 31 were as follows:

	2006	2005	2004
BCC Segment	<b>\$53</b>	\$33	\$27
Other Boeing	<b>7</b>	10	2
	<b>\$60</b>	\$43	\$29

As of December 31, 2006, Northwest Airlines, Inc. (Northwest) has filed for bankruptcy protection and the bankruptcy court has approved the restructured terms of certain obligations owed to us. At December 31, 2006 and 2005, Northwest

## Notes to Consolidated Financial Statements

accounted for \$349 and \$494 of aircraft financing. The bankruptcy, including the impact of any restructurings, related to Northwest is not expected to have a material adverse impact on our earnings, cash flows and/or financial position. Although certain other customers have requested a restructuring of their transactions, we do not believe that they would have a material adverse effect on our earnings, cash flows and/or financial position.

Scheduled payments on customer financing are as follows:

Year	Principal Payments on Notes Receivable	Sales-Type/ Finance Lease Payments Receivable	Operating Lease Equipment Payments Receivable
2007	\$225	\$ 440	\$ 454
2008	360	314	414
2009	150	305	353
2010	161	292	311
2011	182	334	234
Beyond 2011	737	2,789	1,232

Customer financing assets we leased under capital leases and subleased to others totaled \$137 and \$200 at December 31, 2006 and 2005.

### Note 11 – Property, Plant and Equipment

Property, plant and equipment at December 31 consisted of the following:

	2006	2005
Land	\$ 524	\$ 481
Buildings and land improvements	8,571	9,287
Machinery and equipment	8,614	8,750
Construction in progress	1,601	1,174
	19,310	19,692
Less accumulated depreciation	(11,635)	(11,272)
	\$ 7,675	\$ 8,420

Depreciation expense was \$1,058, \$1,001 and \$1,028 for the years ended December 31, 2006, 2005 and 2004, respectively. Interest capitalized during the years ended December 31, 2006, 2005 and 2004 totaled \$110, \$84 and \$71, respectively.

Rental expense for leased properties was \$388, \$400 and \$372, for the years ended December 31, 2006, 2005 and 2004, respectively. These expenses, substantially all minimum rentals, are net of sublease income. Minimum rental payments under operating and capital leases with initial or remaining

terms of one year or more aggregated \$1,019 and \$19, net of sublease payments, for the year ended December 31, 2006. Payments, net of sublease amounts, due during the next five years are as follows:

	2007	2008	2009	2010	2011
Operating leases	\$220	\$165	\$121	\$91	\$66
Capital leases	12	3	2	1	1

### Note 12 – Investments

Our investments, which are recorded in either Short-term investments or Investments, consisted of the following at December 31:

	2006	2005
Available-for-sale investments	\$3,344	\$3,304
Equity method investments	964	65
Other investments	45	37
Total investments	\$4,353	\$3,406

### Available-For-Sale Investments

Our investments in available-for-sale debt and equity securities consisted of the following at December 31:

	2006			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Debt: <sup>1</sup>				
Marketable Securities <sup>2</sup>	\$3,201	\$ 4	\$(25)	\$3,180
ETCs/EETCs	145	7		152
Equity	4	8		12
	\$3,350	\$19	\$(25)	\$3,344
	2005			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Debt: <sup>1</sup>				
Marketable Securities <sup>2</sup>	\$3,065		\$(40)	\$3,025
ETCs/EETCs	258	\$26	(15)	269
Equity	4	6		10
	\$3,327	\$32	\$(55)	\$3,304

<sup>1</sup> At December 31, 2006, debt securities with estimated fair values of \$1,151 and cost of \$1,172 have been in a continuous unrealized loss position for 12 months or longer.

<sup>2</sup> The portfolio is diversified and highly liquid and primarily consists of investment grade fixed income instruments such as U.S. dollar debt obligations of the United States Treasury, other government agencies, corporations, mortgage-backed and asset-backed securities. The portfolio has an average duration of 1.6 years. We believe that the unrealized losses are not other-than-temporary. We do not have a foreseeable need to liquidate the portfolio and anticipate recovering the full value of the securities either as market conditions improve, or as the securities mature.

## Notes to Consolidated Financial Statements

Maturities of available-for-sale debt securities at December 31, 2006, were as follows:

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	\$ 259	\$ 257
Due from 1 to 5 years	1,652	1,648
Due from 5 to 10 years	186	185
Due after 10 years	1,249	1,242
	<b>\$3,346</b>	<b>\$3,332</b>

Supplemental information about gross realized gains and losses on available-for-sale investment securities follows.

	2006	2005	2004
Gains	<b>\$ 56</b>		
Losses, including impairments	<b>(11)</b>	\$(64)	\$(79)
Net	<b>\$ 45</b>	\$(64)	\$(79)

### Equity Method and Other Investments

**Equity Method Investments** The following table reflects the Company's effective ownership percentages and balances of equity method investments as of December 31, 2006 and 2005.

	Segment	Ownership Percentages	Investment Balance	
			2006	2005
United Launch Alliance	N&SS	50%	<b>\$960</b>	
United Space Alliance	N&SS	50%	<b>(92)*</b>	\$(29)*
HRL Laboratories	PE&MS	50%	<b>34</b>	28
APB Winglets	Commercial Airplanes	45%	<b>12</b>	23
Other	Primarily Commercial Airplanes and Support Systems		<b>50</b>	43
			<b>\$964</b>	\$ 65

\*Credit balances are a result of our proportionate share of the joint venture's pension and postretirement related adjustments which reduce the carrying value of the investment.

On December 1, 2006 we closed the transaction with Lockheed Martin Corporation (Lockheed) to create a 50/50 joint venture named United Launch Alliance L.L.C. (ULA). ULA combines the production, engineering, test and launch operations associated with U.S. Government launches of Boeing Delta and Lockheed Atlas rockets. As a result of the transaction, we contributed assets of \$1,609, generally consisting of accounts receivable of \$372, inventories, net of advances, of \$156 and property, plant and equipment of \$1,080, and liabilities of \$695, consisting of accounts payable and other liabilities of \$536 and advances and billings in excess of related costs of \$159 to ULA

in exchange for 50% ownership. These amounts are subject to adjustment pending final review of the respective parties' contributions. We will each provide ULA with an initial cash contribution of up to \$25, and we each have agreed to extend a line of credit to ULA of up to \$200 to support its working capital requirements. (See Notes 8, 9 and 23).

The Sea Launch venture, in which we are a 40% partner with RSC Energia of Russia (25%), Aker ASA of Norway (20%), and KB Yuzhnoye/PO Yuzhmash of the Ukraine (15%), provides ocean-based launch services to commercial satellite customers. The venture conducted five, four and three successful launches for the years ended December 31, 2006, 2005 and 2004, respectively. The venture incurred losses in 2006, 2005 and 2004 due to the relatively low price and volume of launches, driven by a depressed commercial satellite market and over-supply of launch vehicles as well as a high level of debt and debt servicing requirements. We have financial exposure with respect to the venture, which relates to guarantees provided by us to certain Sea Launch creditors, performance guarantees provided by us to a Sea Launch customer and financial exposure related to advances and other assets reflected in the consolidated financial statements.

We suspended recording equity losses after writing our investment in and direct loans to Sea Launch down to zero in 2001 and accruing our obligation for third-party guarantees on Sea Launch indebtedness. We are not obligated to provide any further financial support to the Sea Launch venture. However, in the event that we do extend additional financial support to Sea Launch in the future, we will recognize suspended losses as appropriate.

A Sea Launch Zenit-3SL vehicle, carrying a Boeing-built satellite, experienced an anomaly during launch on January 30, 2007. The impact to Sea Launch operations, including the remaining launches scheduled for 2007 is not yet known. Based on our preliminary assessment, we do not believe that this anomaly will have a material adverse impact on our results of operations, financial position, or cash flows.

**Other Investments** During 2005, we recorded an asset impairment charge of \$42 in Other Income related to the sale of certain investments in technology related funds for proceeds of \$24.

**Note 13—Accounts Payable and Other Liabilities**

Accounts payable and other liabilities at December 31 consisted of the following:

	2006	2005
Accounts payable	\$ 5,643	\$ 5,124
Accrued compensation and employee benefit costs	4,852	4,165
Legal, environmental, and other contingencies <sup>(a)</sup>	1,254	1,647
Forward loss recognition <sup>(b)</sup>	532	1,114
Other	3,920	4,463
	<b>\$16,201</b>	<b>\$16,513</b>

(a) Represents items deemed probable and estimable as discussed in Note 22.

(b) Forward loss recognition relates primarily to Airborne Early Warning & Control in 2006 and launch and satellite contracts in 2005.

Payments associated with these liabilities may occur in periods significantly beyond the next twelve months. Accounts payable included \$335 and \$204 at December 31, 2006 and 2005, attributable to checks written but not yet cleared by the bank.

**Note 14—Debt**

We have \$3,000 currently available under credit line agreements. Boeing Capital Corporation (BCC) is named a subsidiary borrower for up to \$1,500 under these arrangements. Total debt interest incurred, including amounts capitalized, was \$657, \$713, and \$790 for the years ended December 31, 2006, 2005 and 2004, respectively. Interest expense recorded by BCC is reflected as a separate line item on our Consolidated Statements of Operations, and is included in earnings from operations. Total company interest payments were \$657, \$671, and \$722 for the years ended December 31, 2006, 2005 and 2004, respectively. We continue to be in full compliance with all covenants contained in our debt or credit facility agreements, including those at BCC.

On June 6, 2002, BCC established a Euro medium-term note program in the amount of \$1,500. At December 31, 2006 and 2005, BCC had zero debt outstanding under the program such that \$1,500 would normally be available for potential debt issuance. However, debt issuance under this program requires that documentation, information and other procedures relating to BCC and the program be updated within the prior twelve months. In view of BCC's cash position and other available funding sources, BCC determined during 2004 that it was unlikely they would need to use this program in the foreseeable future. The program is thus inactive but available with updated registration statements.

On March 23, 2004, we filed a shelf registration with the SEC for \$1,000 for the issuance of debt securities and underlying common stock. The entire amount remains available for potential debt issuance. BCC has \$3,421 that remains available from shelf registrations filed with the SEC. Both shelf registrations will expire in 2008.

Short-term debt and current portion of long-term debt, consisted of the following:

	At December 31, 2006		At December 31, 2005	
	Consolidated Total	BCC Only	Consolidated Total	BCC Only
Senior Unsecured				
Debt Securities	\$1,115	\$1,115	\$1,015	\$570
Capital lease obligations	55	47	54	45
Non-recourse debt				
and notes	42	4	39	4
Retail notes	141	141	77	77
Other notes	28		4	
	<b>\$1,381</b>	<b>\$1,307</b>	<b>\$1,189</b>	<b>\$696</b>

Debt consisted of the following:

	December 31, 2006	December 31, 2005
<b>Boeing Capital Corporation debt:</b>		
Unsecured debt securities		
3.250%–7.640% due through 2023	\$5,382	\$ 6,048
Non-recourse debt and notes		
4.840%–7.810% notes due through 2013	76	80
Capital lease obligations		
4.120%–8.250% due through 2015	132	194
<b>Subtotal Boeing Capital Corporation debt</b>	<b>\$5,590</b>	<b>\$ 6,322</b>
Other Boeing debt:		
Non-recourse debt and notes		
Enhanced equipment trust	\$ 442	\$ 477
Unsecured debentures and notes		
250, 6.875% due Nov. 1, 2006		250
175, 8.100% due Nov. 15, 2006		175
350, 9.750% due Apr. 1, 2012	349	349
600, 5.125% due Feb. 15, 2013	598	598
400, 8.750% due Aug. 15, 2021	398	398
300, 7.950% due Aug. 15, 2024 (puttable at holder's option on Aug. 15, 2012)	300	300
250, 7.250% due Jun. 15, 2025	247	247
250, 8.750% due Sep. 15, 2031	248	248
175, 8.625% due Nov. 15, 2031	173	173
400, 6.125% due Feb. 15, 2033	393	393
300, 6.625% due Feb. 15, 2038	300	300
100, 7.500% due Aug. 15, 2042	100	100
175, 7.875% due Apr. 15, 2043	173	173
125, 6.875% due Oct. 15, 2043	125	125
Senior medium-term notes		
7.460% due through 2006		20
Capital lease obligations due through 2009	11	17
Other notes	91	62
<b>Subtotal other Boeing debt</b>	<b>\$3,948</b>	<b>\$ 4,405</b>
<b>Total debt</b>	<b>\$9,538</b>	<b>\$10,727</b>

## Notes to Consolidated Financial Statements

At December 31, 2006, \$160 of BCC debt was collateralized by portfolio assets and underlying equipment totaling \$265. The debt consists of the 4.12% to 6.45% notes due through 2015.

Maturities of long-term debt for the next five years are as follows:

	2007	2008	2009	2010	2011
BCC	\$1,308	\$710	\$528	\$646	\$798
Other Boeing	74	30	23	22	74
	\$1,382	\$740	\$551	\$668	\$872

### Note 15—Postretirement Plans

We have various pension plans covering substantially all employees. We fund all our major pension plans through trusts. Pension assets are placed in trust solely for the benefit of the plans' participants, and are structured to maintain liquidity that is sufficient to pay benefit obligations as well as to keep pace over the long term with the growth of obligations for future benefit payments.

We also have postretirement benefits other than pensions which consist principally of healthcare coverage for eligible retirees and qualifying dependents, and to a lesser extent, life insurance to certain groups of retirees. Retiree healthcare is provided principally until age 65 for approximately half those retirees who are eligible for healthcare coverage. Certain employee groups, including employees covered by most United Auto Workers bargaining agreements, are provided lifetime healthcare coverage. We use a measurement date of September 30 for our pension and other postretirement benefit (OPB) plans.

Effective December 31, 2006, we adopted SFAS No. 158, which requires that the Consolidated Statements of Financial Position reflect the funded status of the pension and postretirement plans. The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation. We have recognized the aggregate of all overfunded plans in Other assets and the aggregate of all underfunded plans in either Accrued retiree healthcare or Accrued pension plan liability. The portion of the amount by which the actuarial present value of benefits included in the projected benefit obligation exceeds the fair value of plan assets, payable in the next 12 months, is reflected in Accounts payable and other liabilities.

At December 31, 2006, previously unrecognized differences between actual amounts and estimates based on actuarial assumptions are included in Accumulated other comprehensive loss in our Consolidated Statements of Financial Position as required by SFAS No. 158. In future reporting periods, the difference between actual amounts and estimates based on actuarial assumptions will be recognized in Other comprehensive loss in the period in which they occur.

Effective December 31, 2008, SFAS No. 158 will require us to measure plan assets and benefit obligations at fiscal year end. We currently perform this measurement at September 30 of each year. In addition, beginning in fourth quarter of 2007, this Standard will require us to eliminate the use of a three-month lag period when recognizing the impact of curtailments or settlements and instead, recognize these amounts in the period in which they occur. The provisions of SFAS No. 158 do not permit retrospective application.

The incremental effect of adopting SFAS 158 on individual line items in the Consolidated Statements of Financial Position at December 31, 2006 is shown below:

	Before Adoption of SFAS No. 158	Adjustments	After Adoption of SFAS No. 158
Deferred income taxes	\$ 2,644	\$ 193	\$ 2,837
Total current assets	22,790	193	22,983
Prepaid pension expense	12,808	(12,808)	
Deferred income taxes	200	851	1,051
Investments	4,179	(94)	4,085
Other assets	959	1,776	2,735
Total assets	\$61,876	\$(10,082)	\$51,794
Accounts payable and other liabilities	\$15,935	\$ 266	\$16,201
Total current liabilities	29,435	266	29,701
Deferred taxes	4,151	(4,151)	
Accrued retiree healthcare	6,103	1,568	7,671
Accrued pension plan liability	789	346	1,135
Other long-term liabilities	260	131	391
Accumulated other comprehensive loss	25	(8,242)	(8,217)
Total liabilities & shareholders' equity	\$61,876	\$(10,082)	\$51,794

## Notes to Consolidated Financial Statements

The components of net periodic benefit cost/(income) are as follows:

Year ended December 31,	Pensions			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost/(income)						
Service cost	\$ 908	\$ 910	\$ 831	\$143	\$ 147	\$ 162
Interest cost	2,497	2,457	2,378	436	454	492
Expected return on plan assets	(3,455)	(3,515)	(3,378)	(7)	(7)	(6)
Amortization of prior service costs	188	185	180	(90)	(110)	(102)
Recognized net actuarial loss/(gain)	912	714	379	131	161	188
Settlement/curtailment loss/(gain)		552	61		(96)	
Net periodic benefit cost/(income)	\$ 1,050	\$ 1,303	\$ 451	\$613	\$ 549	\$ 734

Settlement and curtailment losses/(gains) are primarily due to divestitures. (See Note 9).

The following shows changes in the benefit obligation, plan assets and funded status of both pensions and OPB. Benefit obligation balances presented below reflect the projected benefit obligation (PBO) for our pension plans, and accumulated postretirement benefit obligations (APBO) for our OPB plans.

At September 30,	Pensions		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Change in benefit obligation</b>				
Beginning balance	\$45,183	\$42,781	\$ 8,057	\$ 8,135
Service cost	908	910	143	147
Interest cost	2,497	2,457	436	454
Plan participants' contributions	9	12		
Amendments	156	270	(101)	
Actuarial (gain)/loss	(925)	2,778	295	326
Settlement/curtailment/acquisitions/dispositions, net	85	(1,774)	1	(503)
Benefits paid	(2,331)	(2,251)	(497)	(502)
Ending balance	\$45,582	\$45,183	\$ 8,334	\$ 8,057
<b>Change in plan assets</b>				
Beginning balance at fair value	\$43,484	\$38,977	\$ 82	\$ 72
Actual return on plan assets	4,239	5,460	6	7
Company contribution	526	2,604	17	16
Plan participants' contributions	9	12		
Settlement/curtailment/acquisitions/dispositions, net	216	(1,393)		
Benefits paid	(2,286)	(2,208)	(16)	(13)
Exchange rate adjustment	15	32		
Ending balance at fair value	\$46,203	\$43,484	\$ 89	\$ 82
<b>Reconciliation of funded status to net amounts recognized</b>				
Funded status-plan assets less than projected benefit obligation	\$ 621	\$ (1,699)	\$ (8,245)	\$ (7,976)
Unrecognized net actuarial loss		12,989		2,333
Unrecognized prior service costs		1,368		(557)
Adjustment for fourth quarter contributions	11	10	152	141
Net amount recognized	\$ 632	\$12,668	\$ (8,093)	\$ (6,059)
<b>Amounts recognized in statement of financial position at December 31, consist of:</b>				
Prepaid benefit cost		\$13,251		
Intangible asset		66		
Other assets	\$ 1,806			
Accumulated other comprehensive loss to offset additional minimum liability		2,948		
Accounts payable and other liabilities	(39)	(649)	\$ (422)	\$ (70)
Accrued retiree health care			(7,671)	(5,989)
Accrued pension plan liability	(1,135)	(2,948)		
Net amount recognized	\$ 632	\$12,668	\$ (8,093)	\$ (6,059)

## Notes to Consolidated Financial Statements

Amounts recognized in Accumulated other comprehensive loss at December 31, 2006 are as follows:

	Pensions	Other Postretirement Benefits
At December 31,	<b>2006</b>	<b>2006</b>
Net actuarial loss (gain)	\$10,201	\$2,494
Prior service cost (credit)	1,336	(568)
Total recognized in Accumulated other comprehensive loss	<b>\$11,537</b>	<b>\$1,926</b>

The estimated amount that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost in 2007 is as follows:

	Pensions	Other Postretirement Benefits
Year ending December 31,	<b>2007</b>	<b>2007</b>
Recognized net actuarial loss/(gain)	\$762	\$159
Amortization of prior service costs	197	(88)
Total	<b>\$959</b>	<b>\$ 71</b>

The accumulated benefit obligation (ABO) for all pension plans was \$41,706 and \$40,999 at September 30, 2006 and 2005. All of our major tax qualified pension plans, have plan assets that exceed ABOs at September 30, 2006. The following table shows the key information for all plans with ABO in excess of plan assets:

At September 30,	<b>2006</b>	2005
Projected benefit obligation	<b>\$1,602</b>	\$10,638
Accumulated benefit obligation	<b>1,342</b>	10,343
Fair value of plan assets	<b>573</b>	9,405

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 reduced our APBO by \$156 at September 30, 2005 and \$439 at September 30, 2004. These reductions/actuarial gains are amortized over the expected average future service of current employees.

### Assumptions

At September 30,	<b>2006</b>	2005	2004	2003
Discount rate:				
pension and OPB	<b>5.90%</b>	5.50%	5.75%	6.00%
Expected return on plan assets	<b>8.25%</b>	8.50%	8.50%	8.75%
Rate of compensation increase	<b>5.50%</b>	5.50%	5.50%	5.50%

In 2005, we modified our method of determining the discount rate so that the discount rate for each individual pension plan is determined separately based on the duration of each plan's liabilities. Previously, we determined a single discount rate for all our postretirement benefit plans. We made the change mainly

because of the divergence in the populations of our various plans due to employee transfers, layoffs and divestitures. The new method continues to include a matching of the plans' expected future benefit payments against a yield curve that's based on high quality, non-callable bonds in the Bloomberg index as of the measurement date, omitting bonds with the ten percent highest and the ten percent lowest yields. The disclosed rate is the average rate for all the plans, weighted by the projected benefit obligation. As of September 30, 2006, the weighted average was 5.9%, and the rates for individual plans ranged from 5.00% to 6.00%. As of September 30, 2005, the weighted average was 5.50%, and the rates for individual plans ranged from 5.00% to 6.00%.

The pension fund's expected return on assets assumption is derived from an extensive study conducted by our Trust Investments group and its actuaries on a periodic basis. The study includes a review of actual historical returns achieved by the pension trust and anticipated future long-term performance of individual asset classes with consideration given to the related investment strategy. While the study gives appropriate consideration to recent trust performance and historical returns, the assumption represents a long-term prospective return. The expected return on plan assets determined on each measurement date is used to calculate the net periodic benefit cost/(income) for the upcoming plan year.

At September 30,	<b>2006</b>	2005
Assumed healthcare cost trend rates		
Healthcare cost trend rate assumed next year	<b>8.00%</b>	9.00%
Ultimate trend rate	<b>5.00%</b>	5.00%
Year that trend reached ultimate rate	<b>2013</b>	2013

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. To determine the healthcare cost trend rates we look at a combination of information including ongoing claims cost monitoring, annual statistical analyses of claims data, reconciliation of forecast claims against actual claims, review of trend assumptions of other plan sponsors and national health trends, and adjustments for plan design changes, workforce changes, and changes in plan participant behavior. A one-percentage-point change in assumed healthcare cost trend rates would have the following effect:

	Increase	Decrease
Effect on postretirement benefit obligation	\$683	\$(653)
Effect on total of service and interest cost	58	(50)

## Plan Assets

Pension assets totaled \$46,203 and \$43,484 at September 30, 2006 and 2005. In late 2006, the pension asset strategy was modified, with a goal to reduce volatility relative to pension liabilities, achieve a competitive investment return, achieve diversification between and within various asset classes, and manage other risks. In order to reduce the volatility between the value of pension assets and liabilities, the company is increasing its allocation to fixed income securities and increasing the duration of its fixed income holdings. The company will additionally address return and diversification objectives by increasing its allocation to alternative investments, such as private equity, real estate, real assets, and hedge funds. Key risk management areas which we address through this modified strategy include funded status risk, interest rate risk, market risk, operational risk, and liquidity.

Actual investment allocations vary from target allocations due to periodic investment strategy changes and the length of time it takes to complete investments in asset classes such as private equity, real estate, and other investments. Additionally, actual and target allocations vary due to the timing of benefit payments or contributions made on or near the measurement date, September 30.

Pension investment managers are retained with a specific investment role and corresponding investment guidelines. Investment managers have the ability to purchase securities on behalf of the pension fund and invest in derivatives, such as equity or bond futures, swaps, options, or currency forwards. Derivatives generally are used to achieve the desired market exposure of a security or an index, to transfer value-added performance between asset classes, achieve the desired currency exposure, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation.

The actual allocations for the pension assets at September 30, 2006 and 2005, and target allocations by asset category, are as follows:

Asset Category	Percentage of Plan Assets at September 30,		Target Allocations	
	2006	2005	2006	2005
Equity	55%	61%	28%	50%
Debt	37	31	45	31
Private equity	3	3	6	6
Real estate	3	3	7	6
Other	2	2	14	7
	100%	100%	100%	100%

Equity includes domestic and international equity securities, such as common, preferred or other capital stock, as well as equity futures, currency forwards and residual cash allocated to the equity managers. Equity includes our common stock in the amounts of \$1,260 (2.8% of plan assets) and \$1,494 (3.4% of plan assets) at September 30, 2006 and 2005. A currency management strategy was implemented during 2006 which uses currency forwards and options. Equity and currency management derivatives based on net notional amounts totaled 6.6% and 2.3% of plan assets at September 30, 2006 and 2005.

Debt includes domestic and international debt securities, such as U.S. Treasury securities, U.S. Government agency securities, corporate bonds and commercial paper; cash equivalents; investments in bond derivatives such as bond futures, options, swaps and currency forwards; and redeemable preferred stock and convertible debt. Bond derivatives based on net notional amounts totaled 7.0% and 3.9% of plan assets at September 30, 2006 and 2005. Additionally, Debt includes "To-Be-Announced" mortgage-backed securities (TBA), which are contracts to buy or sell mortgage-backed securities to be delivered at a future agreed upon date, and "Treasury Forwards", which similarly have delayed, future settlement dates. Debt included \$1,770 and \$1,549 related to TBA securities and Treasury Forwards at September 30, 2006 and 2005.

Private equity represents private market investments which are generally limited partnerships. Real estate includes investments in private and public real estate. The Other category includes alternative investments such as real assets, global tactical asset allocation strategies, and hedge funds.

We held \$89 and \$82 in trust fund assets for OPB plans at September 30, 2006 and 2005. Most of these funds are invested in a balanced index fund which is comprised of approximately 60% equities and 40% debt securities. The expected rate of return on these assets does not have a material effect on the net periodic benefit cost.

## Cash Flows

**Contributions** Required pension contributions under Employee Retirement Income Security Act (ERISA) regulations are not expected to be material in 2007. In February 2007, we made a discretionary contribution to our plans of \$509 (pre-tax). We will evaluate additional contributions later in the year. We expect to contribute approximately \$17 to our OPB plans in 2007.

**Estimated Future Benefit Payments** The table below reflects the total pension benefits expected to be paid from the plans or from our assets, including both our share of the benefit cost

and the participants' share of the cost, which is funded by participant contributions. OPB payments reflect our portion only.

	Pensions	Other Postretirement Benefits
2007	\$ 2,469	\$ 542
2008	2,548	567
2009	2,626	593
2010	2,718	622
2011	2,792	649
2012-2016	15,696	3,466

**Termination Provisions**

Certain of the pension plans provide that, in the event there is a change in control of the Company which is not approved by the Board of Directors and the plans are terminated within five years thereafter, the assets in the plan first will be used to provide the level of retirement benefits required by ERISA, and then any surplus will be used to fund a trust to continue present and future payments under the postretirement medical and life insurance benefits in our group insurance benefit programs.

We have an agreement with the U.S. Government with respect to certain pension plans. Under the agreement, should we terminate any of the plans under conditions in which the plan's assets exceed that plan's obligations, the U.S. Government will be entitled to a fair allocation of any of the plan's assets based on plan contributions that were reimbursed under U.S. Government contracts.

**401(k)**

We provide certain defined contribution plans to all eligible employees. The principal plans are the Company-sponsored 401(k) plans. The expense for these defined contribution plans was \$514, \$483 and \$468 in 2006, 2005 and 2004, respectively.

**Note 16 – Share-Based Compensation and Other Compensation Arrangements**

**Share-Based Compensation**

On April 28, 2003, the shareholders approved The Boeing Company 2003 Incentive Stock Plan (2003 Plan). The 2003 Plan permits awards of incentive stock options, nonqualified stock options, restricted stock, stock units, Performance Shares, performance units and other incentives to our employees, officers, consultants and independent contractors. The aggregate number of shares of our stock available for issuance under the 2003 Plan will not exceed 60,000,000. Under the terms of the 2003 Plan, no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards.

Our 1997 Incentive Stock Plan (1997 Plan) permits the grant of stock options, stock appreciation rights (SARs) and restricted stock awards (denominated in stock or stock units) to employees and contract employees. Under the terms of the plan, 64,000,000 shares are authorized for issuance upon exercise of options, as payment of SARs and as restricted stock awards, of which no more than an aggregate of 6,000,000 shares are available for issuance as restricted stock awards. This authorization for issuance under the 1997 Plan will terminate on April 30, 2007.

Shares issued as a result of stock option exercise or conversion of stock unit awards will be funded out of treasury shares except to the extent there are insufficient treasury shares in which case new shares will be issued. We believe we currently have adequate treasury shares to meet any requirements to issue shares during 2007.

Share-based plans expense is primarily included in general and administrative expense since it is incentive compensation issued primarily to our executives. The share-based plans expense and related income tax benefit follow:

	2006	2005	2004
Performance Shares	\$473	\$ 723	\$449
Stock options, other	173	234	132
ShareValue Trust	97	79	74
Share-based plans expense	\$743	\$1,036	\$655
Income tax benefit	\$291	\$ 322	\$238

**Adoption of SFAS No. 123R**

We early adopted the provisions of SFAS No. 123R as of January 1, 2005 using the modified prospective method. Upon adoption of SFAS No. 123R, we recorded an increase in net earnings of \$21, net of taxes of \$12, as a cumulative effect of accounting change due to SFAS No. 123R's requirement to apply an estimated forfeiture rate to unvested awards. Previously, we expensed forfeitures as incurred. SFAS No. 123R also resulted in changes in our methods of measuring and amortizing compensation cost of our Performance Shares.

For Performance Shares granted prior to 2005, share-based expense was measured based on the market price of our stock on the award date and was generally amortized over a five-year period. For Performance Shares granted in 2005, the fair value of each award was measured on the date of grant using a Monte Carlo simulation model. The Monte Carlo model also computed an expected term for each Performance Share. We changed our valuation method based on further clarification provided in SFAS No. 123R and the fact that our Performance Shares contain a market condition, which should be reflected in the grant date fair value of an award. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying each market condition stipulated in the award grant.

Additionally, prior to the adoption of SFAS No. 123R, we amortized compensation cost for share-based awards over the stated vesting period for retirement eligible employees and, if an employee retired before the end of the vesting period, we recognized any remaining unrecognized compensation cost at the date of retirement. As a result of adopting SFAS No. 123R, for all share-based awards granted after January 1, 2005, we recognize compensation cost for retirement eligible employees over the greater of one year from the date of grant or the period from the date of grant to the employee's retirement eligibility date (non-substantive vesting approach). Had we also applied the non-substantive vesting approach to awards granted prior to 2005, compensation expense would have been \$50 and \$96 lower and \$59 higher for the years ended December 31, 2006, 2005 and 2004.

**Performance Shares**

Performance Shares are stock units that are convertible to common stock, on a one-to-one basis, contingent upon stock price performance. If, at any time up to five years after award, the stock price reaches and maintains for twenty consecutive days a price equal to stated price growth targets, a stated percentage (up to 125%) of the Performance Shares awarded are vested and convertible to common stock. The following table shows the cumulative vesting percentages based on the cumulative growth rate of the stock above the stock price at the grant date for performance shares awarded in 2002:

Cumulative Growth	61.0%	68.5%	76.2%	84.2%	92.5%	101.1%
Cumulative Vesting	25%	40%	55%	75%	100%	125%

Cumulative stock price growth targets and vesting percentages for 2003, 2004 and 2005 awards follow:

Cumulative Growth	40%	50%	60%	70%	80%	90%	100%	110%	120%	125%
Cumulative Vesting	15%	30%	45%	60%	75%	90%	100%	110%	120%	125%

Performance Shares not converted to common stock expire five years after the date of the award. Awards may vest based on total shareholder return as follows:

- › For 2002 awards, up to 100% of the award may vest if our total shareholder return (stock price appreciation plus dividends) during the five-year period exceeds the average total shareholder return of the S&P 500 over the same period.
- › For 2003 and 2004 awards, up to 125% of the award may vest based on an award formula using the total shareholder return performance relative to the S&P 500.
- › For 2005 award, up to 125% of the award may vest based on an award formula using the total shareholder return performance relative to the S&P 100 and the five-year Treasury Bill rate.

In the event a participant's employment terminates due to retirement, layoff, disability, or death, the participant (or beneficiary) continues to participate in Performance Shares awards

that have been outstanding for at least one year. In all other cases, participants forfeit unvested awards if their employment terminates.

The following tables summarize information about Performance Shares activity:

	December 31, 2006
(Shares in thousands)	Shares
Number of Performance Shares:	
Outstanding at beginning of year	24,859
Granted	
Transferred	
Dividend	172
Converted or deferred	(14,925)
Forfeited	(593)
Canceled or expired	(5,493)
Outstanding at end of year	4,020
Outstanding at end of year not contingent on future employment	1,578

## Notes to Consolidated Financial Statements

The following table provides additional information regarding potentially convertible and converted or deferred Performance Shares.

(Shares in thousands)

Grant Date	2/25/2002	2/24/2003	2/23/2004	2/28/2005
Expiration Date	2/25/2007	2/24/2008	2/23/2009	2/28/2010
Weighted Average Grant Date Fair Value	\$44.94	\$30.27	\$43.53	\$33.05
Cumulative Vested at December 31, 2006	100%	125%	100%	45%
Shares Convertible at December 31, 2006				4,020
Shares Convertible at December 31, 2005	5,625		5,991	7,347
Shares Converted or Deferred During 2006	5,642		6,003	3,280
Shares Converted or Deferred During 2005		5,688	4,855	
Total Market Value of Converted or Deferred Share 2006	\$461		\$496	\$276
Total Market Value of Converted or Deferred Share 2005		\$351	\$322	

The above tables do not include the maximum number of shares contingently issuable under the Plans. Additional shares of 5,825,998 could be transferred in and converted or deferred if Performance Share vestings exceed 100%. Additionally, future deferred vestings that are eligible for the 25% matching contribution could result in the issuance of an additional 1,809,888 shares.

For years ended December 31, 2006, 2005 and 2004, we recorded \$120, \$124 and \$57, respectively, of additional compensation expense to accelerate the amortization of compensation cost for those Performance Shares converted to common stock or deferred as stock or cash at the employees' election.

As discussed above, Performance Shares granted in 2005 were measured on the date of grant using a Monte Carlo model. Additionally, we began to remeasure certain Performance Shares that have a cash settlement feature as liability awards beginning September 30, 2005. Liability awards vesting and transferred into deferred compensation plans totaled \$98 and \$9 for the years ended December 31, 2006 and 2005. The key assumptions used for valuing Performance Shares in 2006 and 2005 follow:

Grant Year	Measurement Date	Weighted Average Expected Volatility	Expected Dividend Yield	Risk Free Interest Rate	Stock Beta
<b>2006 valuation assumptions</b>					
2002–2005	12/31/2006	21.5%	1.5%	4.62–4.83%	1.12
<b>2005 valuation assumptions</b>					
2001–2005	12/31/2005	23.0%	1.6%	4.38–4.43%	0.98
2005	2/28/2005	27.8%	1.9%	4.00%	1.03

Weighted average expected volatility is based on recent volatility levels implied by actively traded option contracts on our common stock and the historical volatility levels on our common stock. Expected dividend yield is based on historical dividend payments. Risk free interest rate reflects the yield on the zero coupon U.S. Treasury based on the Performance Shares' remaining contractual term. Stock beta is a measure of how our stock price moves relative to the market as a whole. The fair value of the 2005 Performance Shares is amortized over the expected term of each award. The expected term of 1 to 4 years for each award granted is derived from the output of the valuation model and represents the median time required to satisfy the conditions of the award, adjusted for the effect of retiree eligible participants. Each price growth target has a different expected term, resulting in the range of values provided.

At December 31, 2006, there was \$134 of unrecognized compensation cost related to the Performance Share plan which is expected to be recognized over a weighted average period of 1.3 years. In connection with Performance Shares that have not met the market conditions, we reclassified \$288 from Additional paid-in capital to Other liabilities and recognized a cumulative adjustment to General and administrative expense of \$88 during 2005. Additionally, effective December 31, 2005, we modified our deferred stock compensation plan to require all Performance Shares that were unvested and deferred as stock units to be settled in stock. We also gave participants in our deferred stock compensation plan a one-time opportunity to cancel their deferral election for unvested Performance Shares or to change their deferral election for unvested Performance Shares to a deferred interest account. As a result, we reclassified \$213 from Other liabilities to Additional paid-in capital at December 31, 2005, for unvested Performance Shares deferred as stock units and for unvested Performance Shares no longer being deferred. These modifications resulted in no incremental compensation cost. For participants who had deferred unvested Performance Shares in stock units and cancelled or changed their deferral election effective December 31, 2005, we reversed \$13 of previously recorded compensation expense related to the 25% matching contribution which was forfeited. 268 employees were affected by the modification.

### Stock Options

Options have been granted with an exercise price equal to the fair market value of our stock on the date of grant and expire ten years after the date of grant. For stock options issued prior to 2006, vesting is generally over a five-year service period with portions of a grant becoming exercisable at one year, three years and five years after the date of grant. In the event an employee has a termination of employment due to retirement, layoff, disability or death, the employee (or beneficiary) immediately vests in grants that have been outstanding for at least one year.

On February 27, 2006 we granted to our executives 6,361,100 options with an exercise price equal to the fair market value of our stock on the date of grant. The stock options vest over a period of three years, with 34% vesting after the first year, 33%

vesting after the second year and the remaining 33% vesting after the third year. The options expire ten years after the date of grant. If an executive terminates for any reason, the non-vested portion of the stock option will not vest and all rights to the non-vested portion will terminate completely.

The following table summarizes the activity of stock options issued to directors, officers and other employees:

		December 31, 2006		
(Shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Number of shares				
under option:				
Outstanding at				
beginning of year	16,358	\$45.40		
Granted	6,408	74.55		
Exercised	(6,543)	46.58		
Forfeited	(697)	67.64		
Expired	(44)	48.70		
Outstanding at				
end of year	15,482	56.22	5.87	\$505
Exercisable at				
end of year	8,428	\$46.58	3.48	\$356

The total intrinsic value of options exercised was \$216, \$170 and \$44 during the years ended December 31, 2006, 2005 and 2004, respectively. Cash received from options exercised for the years ended December 31, 2006, 2005 and 2004 was \$294, \$348 and \$98 with a related tax benefit of \$52, \$59 and \$13, respectively, derived from the compensation deductions resulting from these option exercises. Stock options granted during 2005 and 2004 were not material. At December 31, 2006, there was \$97 of total unrecognized compensation cost related to the Stock Option plan which is expected to be recognized over a weighted average period of 2.1 years. The total fair value of stock options vested during the year ended December 31, 2006 was \$8.

The fair value of stock-based compensation awards granted prior to 2006 were estimated using a binomial option-pricing model and the 2006 awards granted were estimated using the Black-Scholes option-pricing model with the following assumptions:

Grant Year	Grant Date	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Weighted Average Grant Date Fair Value
2006	2/27/06	6 years	29.5%	1.8%	4.64%	\$23.00
2005	8/23/05	9 years	29%	1.5%	4.2%	25.01
2004	12/17/04	9 years	31%	1.1%	4.2%	18.60

For the stock option grants issued in 2006 the expected volatility is based on a combination of our historical stock volatility and the volatility levels implied on the grant date by actively traded option contracts on our common stock. We determined the expected term of the 2006 stock option grants to be 6 years, calculated in accordance with the SEC Staff Accounting Bulletin (SAB) 107 using the "simplified" method.

## Other Stock Unit Awards

The total number of other stock unit awards that are convertible either to common stock or cash equivalents and are not contingent upon stock price were 1,871,559, 2,037,438 and 2,019,250 at December 31, 2006, 2005 and 2004, respectively.

Liability award payments relating to Boeing Stock Units totaled \$57, \$32 and \$24 for the years ended December 31, 2006, 2005 and 2004, respectively.

## ShareValue Trust

The ShareValue Trust, established effective July 1, 1996, is a 14-year irrevocable trust that holds our common stock, receives dividends and distributes to employees the appreciation in value above a 3% per annum threshold rate of return at the end of each period. The total compensation expense to be recognized over the life of the trust was determined using a binomial option-pricing model and was not affected by adoption of SFAS No. 123R.

The Trust was split between two funds, "fund 1" and "fund 2", upon its initial funding. Each fund consists of investment periods which result in overlapping periods as follows:

Period 1 (fund 1): July 1, 1996 to June 30, 1998  
 Period 2 (fund 2): July 1, 1996 to June 30, 2000  
 Period 3 (fund 1): July 1, 1998 to June 30, 2002  
 Period 4 (fund 2): July 1, 2000 to June 30, 2004  
 Period 5 (fund 1): July 1, 2002 to June 30, 2006  
 Period 6 (fund 2): July 1, 2004 to June 30, 2008  
 Period 7 (fund 1): July 1, 2006 to June 30, 2010

An initial investment value is established for each investment period based on the lesser of either (1) fair market value of the fund or (2) the prior ending balance of that fund. This amount is then compounded by the 3% per annum to determine the threshold amount that must be met for that investment period. At the end of the investment period, the value of the investment in excess of the threshold amount will result in a distribution to participants. A distribution is proportionally distributed in the ratio each participant's number of months of participation which relates to the total number of months earned by all participants in the investment period. At December 31, 2006, the Trust held 30,903,026 shares of our common stock in the two funds.

Based on the average stock price of \$82.285 as of June 30, 2006, the market value of fund 1 exceeded the threshold of \$1,004 by \$758. This excess was paid in Boeing common stock, except for partial shares and distributions to non-U.S. employees and beneficiaries of deceased participants, which were paid in cash. After employee withholding taxes of \$265, which were recorded as a liability in the second quarter of 2006 and were paid in the third quarter of 2006, 5.6 million shares of common stock were distributed to participants during the third quarter of 2006. These distributions were recorded as a deduction to Additional paid-in capital. In addition, related employer payroll taxes of \$59 were expensed in the second quarter of 2006.

## Notes to Consolidated Financial Statements

If on June 30, 2008, the market value of fund 2 exceeds \$1,028, the amount in excess of the threshold will be distributed to employees in shares of common stock. Similarly, if on June 30, 2010, the market value of fund 1 exceeds \$1,130, the amount in excess of the threshold will be distributed to employees in shares of common stock. As of December 31, 2006 the market values of Fund 1 and 2 were \$1,094 and \$1,659.

The ShareValue Trust is accounted for as a contra-equity account and stated at market value. Market value adjustments are offset to additional paid-in capital. At December 31, 2006, there was \$252 of total unrecognized compensation cost related to the ShareValue Trust which is expected to be recognized over a period of 3.5 years.

### Other Compensation Arrangements

**Performance Awards** During the first quarter of 2006, we granted Performance Awards to our executives. Performance Awards are cash units that payout based on the achievement of long-term financial goals at the end of a three-year period. Each unit has an initial value of \$100 dollars. The amount payable at the end of the three-year performance period may be anywhere from zero to \$200 dollars per unit, depending on the Company's performance against plan for the three years ended December 31, 2008. The Compensation Committee has the discretion to pay these awards in cash, stock, or a combination of both after the three-year performance period.

The 2009 payout assuming target performance would be approximately \$132. The minimum amount is zero and the maximum amount we could be required to payout for the Performance Awards is \$263. Compensation expense, based on the estimated performance payout, is recognized ratably over the performance period.

**Deferred Stock Compensation** The Company has a deferred compensation plan which permits executives to defer receipt of a portion of their salary, bonus, and certain other incentive awards. Prior to May 1, 2006, employees who participated in the deferred compensation plan could choose to defer in either an interest earning account or a Boeing stock unit account. Effective May 1, 2006, participants can diversify deferred compensation among 19 investment funds including the interest earning account and the Boeing stock unit account.

Total expense related to deferred stock compensation was \$210, \$149, and \$26 in 2006, 2005, and 2004, respectively. Additionally, for employees who elected to defer their compensation in stock units prior to January 1, 2006, the Company matched 25% of the deferral with additional stock units. Upon retirement, the 25% match is settled in cash or stock; however, effective January 1, 2006 all matching contributions are settled in stock. As a result, we reclassified \$102 from Other liabilities to Additional paid-in capital at December 31, 2005 related to the 25% matching contribution. This modification resulted in

no incremental compensation. As of December 31, 2006 and 2005, the deferred compensation liability which is being marked to market was \$1,505 and \$1,348.

### Note 17 – Shareholders' Equity

The Company's 2005 stock repurchase program was terminated by resolution of our Board of Directors on August 28, 2006 and replaced with a program approving the repurchase of \$3 billion of additional common stock (the "2006 program"). Unless terminated earlier by resolution of our Board of Directors, the 2006 Program will expire when we have used all funds authorized for repurchase. At December 31, 2006, \$2,374 in shares may still be purchased under the program.

As of December 31, 2006 and 2005, there were 1,200,000,000 common shares authorized. 20,000,000 shares of authorized preferred stock remain unissued.

### Changes in Share Balances

The following table shows changes in each class of shares:

	Common Stock	Treasury Stock	ShareValue Trust
Balance January 1, 2004	1,011,870,159	170,388,053	41,203,694
Issued		(5,410,678)	
Acquired		14,708,856	645,866
Payout			(2,867,355)
Balance December 31, 2004	1,011,870,159	179,686,231	38,982,205
Issued	391,000	(12,812,111)	
Acquired		45,217,300	611,258
Payout			
Balance December 31, 2005	1,012,261,159	212,091,420	39,593,463
Issued		(13,502,823)	
Acquired		24,933,579	524,563
Payout			(9,215,000)
<b>Balance December 31, 2006</b>	<b>1,012,261,159</b>	<b>223,522,176</b>	<b>30,903,026</b>

### Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss were as follows:

	December 31, 2006	December 31, 2005
Foreign currency translation adjustments	\$ 157	\$ 84
Unrealized gains/(losses) on certain investments, net of reclassification adjustments	(3)	(14)
Unrealized gains/(losses) on derivative instruments, net of reclassification adjustments	18	32
Minimum pension liability adjustments		(1,880)
Pension and postretirement adjustments	(8,389)	
<b>Accumulated other comprehensive loss</b>	<b>\$(8,217)</b>	<b>\$(1,778)</b>

**Note 18—Derivative Financial Instruments****Cash Flow Hedges**

Our cash flow hedges include certain interest rate swaps, cross currency swaps, foreign currency forward contracts, foreign currency option contracts and commodity purchase contracts. Interest rate swap contracts under which we agree to pay fixed rates of interest are designated as cash flow hedges of variable-rate debt obligations. We use foreign currency forward contracts to manage currency risk associated with certain forecasted transactions, specifically sales and purchase commitments made in foreign currencies. Our foreign currency forward contracts hedge forecasted transactions principally occurring within five years in the future, with certain contracts hedging transactions up to 2021. We use commodity derivatives, such as fixed-price purchase commitments, to hedge against potentially unfavorable price changes for items used in production. These include commitments to purchase electricity at fixed prices through 2009.

For the years ended December 31, 2006, 2005, and 2004, gains/(losses) of \$24, \$3, and (\$16), respectively, (net of tax) were reclassified to cost of products and services from Accumulated other comprehensive loss. In 2006, additional gains of \$12 were reclassified from Accumulated other comprehensive loss to Other income, net, as a result of discontinuance of cash flow hedge designation based on the probability that the original forecasted transactions will not occur by the end of the originally specified time period. Such reclassifications were not significant for the years ended December 31, 2005 and 2004. Ineffectiveness for cash flow hedges was insignificant for the years ended December 31, 2006, 2005 and 2004.

At December 31, 2006 and 2005, net gains of \$18 and \$32 (net of tax) were recorded in Accumulated other comprehensive loss associated with our cash flow hedging transactions. Based on our current portfolio of cash flow hedges, we expect to reclassify to cost of products and services a gain of \$21 (net of tax) during 2007.

**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 Interest and debt expense. Ineffectiveness related to the interest rate swaps was insignificant for the years ended December 31, 2006, 2005 and 2004.

For the years ended December 31, 2006, 2005 and 2004, \$8, \$12, and \$24 of gains related to the basis adjustment of certain terminated interest rate swaps and forward-starting interest rate swaps were amortized to earnings.

**Derivative Financial Instruments Not Receiving Hedge Accounting Treatment**

We also hold certain non-hedging instruments such as interest exchange agreements, interest rate swaps, warrants, and foreign currency forward contracts. The changes in fair value of these instruments are recorded in Other income, net. For the years ended December 31, 2006, 2005 and 2004, these non-hedging instruments resulted in net (loss)/gains of (\$6), \$11, and \$19, respectively.

**Note 19—Arrangements with Off-Balance Sheet Risk**

We enter into arrangements with off-balance sheet risk in the normal course of business, as discussed below. These arrangements are primarily in the form of guarantees, product warranties, and variable interest entities (VIEs).

**Third-Party Guarantees**

The following tables provide quantitative data regarding our third-party guarantees. The maximum potential payments represent a “worst-case scenario,” and do not necessarily reflect our expected results. 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 recorded on the Consolidated Statements of Financial Position reflects our best estimate of future payments we may incur as part of fulfilling our guarantee obligations.

As of December 31, 2006	Maximum Potential Payments	Estimated Proceeds from Collateral/Recourse	Carrying Amount of Liabilities*
Contingent repurchase commitments	\$4,164	\$4,155	\$ 7
Indemnifications to ULA	1,664		7
Residual value guarantees	252	215	15
Credit guarantees related to the Sea Launch venture	471	283	188
Other credit guarantees	31	17	
Performance guarantees	47	20	

\*Amounts included in Accounts payable and other liabilities

As of December 31, 2005	Maximum Potential Payments	Estimated Proceeds from Collateral/Recourse	Carrying Amount of Liabilities*
Contingent repurchase commitments	\$4,067	\$4,059	
Residual value guarantees	352	288	\$ 15
Credit guarantees related to the Sea Launch venture	490	294	196
Other credit guarantees	41	13	8
Performance guarantees	48	21	1

\*Amounts included in Accounts payable and other liabilities

**Contingent Repurchase Commitments** In conjunction with signing a definitive agreement for the sale of new aircraft (Sale Aircraft), we have entered into contingent repurchase commitments with certain customers. Under such commitments, we agree to repurchase the Sale Aircraft at a specified price, generally ten years after delivery of the Sale Aircraft. Our repurchase of the Sale Aircraft is contingent upon a future, mutually acceptable agreement for the sale of additional new aircraft.

**Indemnifications to ULA** We agreed to indemnify ULA against potential losses that ULA may incur from certain contracts contributed by us. In the event ULA is unable to obtain certain additional contract pricing to which we believe ULA is entitled, we will be responsible for any shortfall and may record up to \$322 in pre-tax losses. We recorded a liability of \$7 as our best estimate of the fair value of this indemnification. The term of the indemnification is indefinite.

We entered into an inventory supply agreement with ULA for the sale of \$1,860 of Delta program inventories which were not contributed to the joint venture. The term of the inventory supply agreement extends to March 31, 2021. We have agreed to indemnify ULA in the event that these inventories are not recoverable from existing and future orders. We also agreed to indemnify ULA against potential losses that ULA may incur relating to the recoverability of \$1,375 of inventories included in the contributed assets. The term of the inventory indemnification extends to December 31, 2020. Although we believe that the \$1,375 of contributed inventories and the additional \$1,860 of Boeing Delta inventories to be sold to ULA will be recoverable based on our assessment of the mission manifest, losses could occur if the manifest is reduced and the inventories are not recovered by ULA.

**Residual Value Guarantees** We have issued various residual value guarantees principally to facilitate the sale of certain commercial aircraft. Under these guarantees, we are obligated to make payments to the guaranteed party if the related aircraft or equipment fair values fall below a specified amount at a future time. These obligations are collateralized principally by commercial aircraft and expire in 2 to 12 years.

**Credit Guarantees Related to the Sea Launch Venture** We have issued credit guarantees to creditors of the Sea Launch venture, of which we are a 40% partner, to assist the venture in obtaining financing. Under these credit guarantees, we are obligated to make payments to a guaranteed party in the event that Sea Launch does not make its loan payments. We have substantive guarantees from the other venture partners, who are obligated to reimburse us for their share (in proportion to their Sea Launch ownership percentages) of any guarantee payment we may make related to the Sea Launch obligations. These guarantees expire within the next 9 years.

**Other Credit Guarantees** We have issued credit guarantees, principally, to facilitate the sale 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 debtor or lessee. A substantial portion of these guarantees has been extended on behalf of original debtors or lessees with less than investment-grade credit. Our commercial aircraft credit-related guarantees are collateralized by the underlying commercial aircraft. Current outstanding credit guarantees expire within the next 9 years.

**Performance Guarantees** We have outstanding performance guarantees issued in conjunction with joint venture investments. Pursuant to these guarantees, we would be required to make payments in the event a third-party fails to perform specified services. We have guarantees from the other venture partners, who are obligated to reimburse us for a portion of any guarantee payments we may make related to the performance guarantee. Current performance guarantees expire within the next 11 years.

**Other Indemnifications** In conjunction with our sales of the EDD and Rocketdyne businesses and the sale of our Commercial Airplanes facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma in 2005, we provided indemnifications to the buyers relating to pre-closing environmental contamination and certain other items. The terms of the indemnifications are indefinite. As it is impossible to assess whether there will be damages in the future or the amounts thereof, we cannot estimate the maximum potential amount of future payments under these guarantees. Therefore, no liability has been recorded.

### Product Warranties

We provide product warranties in conjunction with certain product sales. The majority of our warranties are issued by our Commercial Airplanes segment. Generally, aircraft sales are accompanied by a three- to four-year standard warranty for systems, accessories, equipment, parts and software manufactured by us or manufactured to certain standards under our authorization. These items are included in the programs' estimate at completion (EAC). Additionally, on occasion we have made commitments beyond the standard warranty obligation to correct fleet wide major warranty issues of a particular model. These costs are expensed as incurred. These warranties cover factors such as non-conformance to specifications and defects in material and design. Warranties issued by our IDS segments principally relate to sales of military aircraft and weapons hardware. These sales are generally accompanied by a six- to twelve-month warranty period and cover systems, accessories, equipment, parts and software manufactured by us to certain contractual specifications. These warranties cover factors such as non-conformance to specifications and defects in material and workmanship.

Estimated costs related to standard warranties are recorded in the period in which the related product sales occur. The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products delivered times the average of historical monthly warranty payments, as well as additional amounts for certain major warranty issues that exceed a normal claims level.

The following table summarizes product warranty activity recorded during 2006 and 2005:

	Product Warranty Liabilities*
Beginning balance—January 1, 2005	\$ 781
Additions for new warranties	119
Reductions for payments made	(146)
Changes in estimates	27
Ending balance—December 31, 2005	781
Additions for new warranties	171
Reductions for payments made	(206)
Changes in estimates	15
<b>Ending balance—December 31, 2006</b>	<b>\$ 761</b>

\*Amounts included in Accounts payable and other liabilities.

**Material Variable Interests in Unconsolidated Entities**

Our investments in EETCs and other VIEs are included within the scope of Revised Interpretation No. 46 (FIN 46(R)), *Consolidation of Variable Interest Entities*. We have certain investments in EETCs which were acquired between 1999 and 2005. EETCs are trusts that passively hold investments in aircraft or pools of aircraft. The EETCs provide investors with collateral position in the related assets and tranching rights to cash flows from a financial instrument. Our investments in EETCs do not require consolidation under FIN 46(R). At December 31, 2006 our maximum exposure to economic loss from our EETCs is \$152. At December 31, 2006, the EETC investments had total assets of \$559 and total debt of \$407. This debt is non-recourse to us. During 2006, we recorded income of \$9 and received cash of \$18 related to these investments.

**Industrial Revenue Bonds**

Industrial Revenue Bonds (IRBs) issued by the City of Wichita are used to finance the purchase and/or construction of real and personal property at our Wichita site. Tax benefits associated with IRBs include a ten-year property tax abatement and a sales tax exemption from the Kansas Department of Revenue. We record the property on our Consolidated Statements of Financial Position, along with a capital lease obligation to repay the proceeds of the IRB. We have also purchased the IRBs and, therefore, are the bondholder as well as the borrower/lessee of the property purchased with the IRB proceeds.

We have a similar arrangement with the Development Authority of Fulton County, Georgia where we are both borrower and bondholder. Tax benefits associated with these IRBs are the provision of a ten-year partial property tax abatement.

The capital lease obligation and IRB asset are recorded net in the Consolidated Statements of Financial Position pursuant to FIN 39, *Offsetting of Amounts Related to Certain Contracts*. As of December 31, 2006 and 2005, the assets and liabilities associated with the City of Wichita IRBs were \$1,419 and \$1,416, and the amounts associated with the Fulton County IRBs were \$16 and \$17.

**Note 20—Significant Group Concentrations of Risk**

**Credit Risk**

Financial instruments involving potential credit risk are predominantly with commercial aircraft customers and the U.S. Government. Of the \$14,175 in Accounts receivable and Customer financing included in the Consolidated Statements of Financial Position as of December 31, 2006, \$8,562 related to commercial aircraft customers (\$358 of Accounts receivable and \$8,204 of Customer financing) and \$2,832 related to the U.S. Government. Of the \$8,204 of aircraft customer financing, \$7,712 related to customers we believe have less than investment-grade credit. AirTran Airways, AMR, United Airlines and Midwest Airlines Inc. were associated with 19%, 14%, 9% and 8%, respectively, of our aircraft financing portfolio. Financing for aircraft is collateralized by security in the related asset. As of December 31, 2006, there was \$10,164 of financing commitments related to aircraft on order including options described in Note 23, of which \$8,356 related to customers we believe have less than investment-grade credit.

**Other Risk**

As of December 31, 2006, approximately 37% of our employees were represented by collective bargaining agreements and approximately 4% of our employees were represented by agreements expiring during 2007.

**Note 21—Disclosures About Fair Value of Financial Instruments**

The estimated fair value of our Investments and Notes receivable balances at December 31, 2006 and 2005 approximate their carrying value.

As of December 31, 2006, the carrying amounts of Accounts receivable and Accounts payable were \$5,285 and \$5,643, and the related fair values, based on current market rates for loans of the same risk and maturities, were estimated at \$4,876 and \$5,356. The estimated fair values of our Accounts receivable and Accounts payable balances at December 31, 2005 approximate their carrying value. The estimated fair value of our Other liabilities balance at December 31, 2006 and 2005 approximates its carrying value.

As of December 31, 2006 and 2005, the carrying amount of debt, net of capital leases, was \$9,395 and \$10,516 and the fair value of debt, based on current market rates for debt of the same risk and maturities, was estimated at \$10,297 and \$11,643. Our debt is generally not callable until maturity.

With regard to financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of future financing commitments because there is not a market for such future commitments. Residual value and credit guarantees are estimated to have a fair value of \$113 and \$148 at December 31, 2006 and 2005. Contingent repurchase commitments are estimated to have a fair value of \$91 and \$80 at December 31, 2006 and 2005.

### Note 22 – Legal Proceedings

Various legal proceedings, claims and investigations related to products, contracts and other matters are pending against us. Many potentially significant legal proceedings are related to matters covered by our insurance. Potential 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. 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 adverse effect on our financial position, except as set forth below.

#### A-12 Litigation

In 1991, the U.S. Navy notified McDonnell Douglas Corporation (now one of our subsidiaries) and General Dynamics Corporation (together, the Team) that it was terminating for default the Team's contract for development and initial production of the A-12 aircraft. The Team filed a legal action to contest the Navy's default termination, to assert its rights to convert the termination to one for "the convenience of the Government," and to obtain payment for work done and costs incurred on the A-12 contract but not paid to date. As of December 31, 2006, inventories included approximately \$584 of recorded costs on the A-12 contract, against which we have established a loss provision of \$350. The amount of the provision, which was established in 1990, was based on McDonnell Douglas Corporation's belief, supported by an opinion of outside counsel, that the termination for default would be converted to a termination for convenience, and that the best estimate of possible loss on termination for convenience was \$350.

On August 31, 2001, the U.S. Court of Federal Claims issued a decision after trial upholding the Government's default termination of the A-12 contract. The court did not, however, enter a money judgment for the U.S. Government on its claim for unliquidated progress payments. In 2003, the Court of Appeals for the Federal Circuit, finding that the trial court had applied the wrong legal standard, vacated the trial court's 2001 decision and ordered the case sent back to that court for further proceedings. This follows an earlier trial court decision in favor of the Team and reversal of that initial decision on appeal.

If, after all judicial proceedings have ended, the courts determine, contrary to our belief, that a termination for default was appropriate, we would incur an additional loss of approximately \$275, consisting principally of remaining inventory costs and adjustments, and, if the courts further hold that a money judgment should be entered against the Team, we would be

required to pay the U.S. Government one-half of the unliquidated progress payments of \$1,350 plus statutory interest from February 1991 (currently totaling approximately \$1,270). In that event, our loss would total approximately \$1,585 in pre-tax charges. Should, however, the March 31, 1998 judgment of the U.S. Court of Federal Claims in favor of the Team be reinstated, we would be entitled to receive payment of approximately \$1,056, including interest.

We believe that the termination for default is contrary to law and fact and that the loss provision established by McDonnell Douglas Corporation in 1990, which was supported by an opinion from outside counsel, continues to provide adequately for the reasonably possible reduction in value of A-12 net contracts in process as of December 31, 2006. Final resolution of the A-12 litigation will depend upon the outcome of further proceedings or possible negotiations with the U.S. Government.

#### Global Settlement of the Evolved Expendable Launch Vehicle (EELV) and Druyun Matters

On June 30, 2006, we entered into a global settlement through two separate agreements disposing of potential criminal charges and civil claims with the Civil Division of the U.S. Justice Department and U.S. Attorneys in Los Angeles, CA and Alexandria, VA relating to two separate procurement integrity incidents. The first incident in 1999, involved possession by four Boeing employees of Lockheed Martin competitor information related to the EELV program. The second incident related to conflict of interest charges in hiring former government official Darleen Druyun. In the agreement with the U.S. Attorneys in Los Angeles and Alexandria, we agreed to pay a \$50 penalty, committed to maintaining our strengthened ethics and compliance program for the two-year term of the agreement (through June 2008) and agreed to provide both U.S. Attorneys offices with certain compliance reports. Concurrent with entering into the U.S. Attorney agreement, we entered into a Civil Agreement with the Civil Division of the U.S. Department of Justice under which we agreed to pay \$565 in settlement of all potential civil claims. We are also subject to an Administrative Agreement with the U.S. Air Force through March 2008 which requires certain compliance activities and reports.

As a result of the global settlement, we have recorded an additional expense of \$571, which represents the cumulative payment of \$615 under the two separate agreements, net of \$44 previously accrued in connection with program and contracts issues relating to the EELV investigation.

One additional proceeding that relates to the subject matter of the global settlement is Lockheed's June 2003 lawsuit against us in the U.S. District Court for the Middle District of Florida based upon the EELV incident wherein Lockheed sought injunctive relief, compensatory damages in excess of \$2,000, and treble damages and punitive damages, and we filed counterclaims against Lockheed similarly seeking compensatory and punitive damages. Proceedings in that lawsuit had been

stayed at the request of the parties pending closure of United Launch Alliance. On December 13, 2006, the court, upon a motion from the parties, ordered a dismissal with prejudice of all claims and counterclaims.

### Employment and Benefits Litigation

We are a defendant in three employment discrimination class actions. In the Williams class action, which was filed on June 8, 1998 in the U.S. District Court for the Western District of Washington (alleging race discrimination), we prevailed in a jury trial in December 2005, but plaintiffs appealed the pre-trial dismissal of compensation claims in November 2005. In the Calender class action, which was filed January 25, 2005 in the U.S. Northern District of Illinois (a spin-off from Williams alleging race discrimination), plaintiffs dropped their promotions claim on June 6, 2006 and put their compensation claims on hold pending the outcome of the Williams appeal. In the Anderson class action, which was filed March 22, 2002 in the U.S. District Court for the Northern District of Oklahoma (alleging gender discrimination), the class claims were dismissed on October 18, 2006, and no appeal was taken.

In addition, on March 2, 2006, we were served with a complaint filed in the U. S. District Court for the District of Kansas, alleging that hiring decisions made by Spirit Aerospace near the time of Boeing's sale of the Wichita facility were tainted by age discrimination. The case is brought as a class action on behalf of individuals not hired by Spirit. Pursuant to an indemnity provision in the Asset Purchase Agreement, Spirit has agreed to defend and indemnify us.

On June 23, 2006, two employees and two former employees of Boeing filed a purported class action lawsuit in the U.S. District Court for the Southern District of Illinois against Boeing, McDonnell Douglas Corporation and the Pension Value Plan for Employees of The Boeing Company (the "Plan") on behalf of themselves and similarly situated participants in the Plan. The plaintiffs allege that as of January 1, 1999 and all times thereafter, the Plan's benefit formula used to compute the accrued benefit violates the accrual rules of the Employment Retirement Income Security Act and that plaintiffs are entitled to a recalculation of their benefits along with other equitable relief. We believe the allegations claimed by plaintiffs lack merit and have filed a motion to dismiss all claims. It is not possible, at this, time to determine whether an adverse outcome would have a material adverse effect on our financial position.

On September 13, 2006, two UAW Local 1069 retirees filed a class action lawsuit in the Middle District of Tennessee alleging that recently announced changes to medical plans for retirees of UAW Local 1069 constituted a breach of collective bargaining agreements under §301 of the Labor-Management Relations Act and §502(a)(1)(B) of ERISA. On September 15, 2006, Boeing filed a lawsuit in the Northern District of Illinois against the International UAW and two retiree medical plan participants seeking a declaratory judgment confirming that the

Company has the legal right to make changes to these medical benefits. It is not possible, at this time, to determine whether an adverse outcome would have a material adverse effect on our financial position.

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 "Plan"), allege that fees and expenses incurred by the Plan were and are unreasonable and excessive, not incurred solely for the benefit of the Plan and its participants, and undisclosed to participants. The plaintiffs further allege that defendants breached their fiduciary duties in violation of Section 502(a)(2) of ERISA, and seek injunctive and equitable relief pursuant to Section 502(a)(3) of ERISA. It is not possible to determine, at this time, whether an adverse outcome in this matter would have a material adverse impact on our financial position.

### BSSI/ICO Litigation

On August 16, 2004, Boeing Satellite Systems International, Inc. (BSSI) filed a complaint for declaratory relief against ICO Global Communications (Operations), Ltd. (ICO) in Los Angeles County Superior Court. BSSI's suit seeks a declaration that ICO's prior termination of two contracts for convenience extinguished all claims between the parties. On September 16, 2004, ICO filed a cross-complaint alleging breach of contract, and other claims, and seeking recovery of all amounts paid to BSSI under the contracts, which are alleged to be approximately \$2,000; ICO added Boeing to the suit as a defendant approximately one year later. On January 13, 2006, BSSI filed a cross-complaint against ICO, ICO Global Communications (Holdings) Limited ("ICO Holdings"), ICO's parent, and Eagle River Investments, LLC, parent of both ICO and ICO Holdings, alleging fraud and other claims. Trial has been set for September 2007. We believe that ICO's claims lack merit and intend to aggressively pursue our claims.

### BSSI/Thuraya Litigation

On September 10, 2004, a group of insurance underwriters for Thuraya Satellite Telecommunications (Thuraya) requested arbitration before the International Chamber of Commerce (ICC) against BSSI. The Request for Arbitration alleges that BSSI breached its contract with Thuraya for sale of a model 702 satellite that experienced power loss anomalies. The claimants seek approximately \$199 (plus claims of interest, costs and fees), consisting of insurance payments made to Thuraya, and they further reserved the right to seek an additional \$38 currently in dispute between Thuraya and some insurers. Thuraya has reserved its rights to seek uninsured losses that could increase the total amount disputed to \$365. We believe these claims lack merit and intend to vigorously defend against them.

We have insurance coverage to respond to this arbitration request and have notified responsible insurers. On May 26, 2006, a group of these insurers filed a declaratory judgment action in the Circuit Court of Cook County asserting certain defenses to coverage and requesting a declaration of their obligation under Boeing's insurance and reinsurance policies relating to the Thuraya ICC arbitration. We believe the insurers' position lacks merit and intend to vigorously litigate the coverage issue.

### BSSI/Telesat Canada

On November 9, 2006, Telesat Canada and its insurers served BSSI with an arbitration demand alleging breach of contract, gross negligence, and willful misconduct in connection with the constructive total loss of Anik F1, a model 702 satellite manufactured by BSSI. Telesat and its insurers seek over \$385 in damages and \$10 in lost profits. On December 1, 2006, we filed an action in the Ontario Superior Court of Justice, Ottawa, Canada, to enjoin the arbitration. We believe that the claims asserted by Telesat and its insurers lack merit, but we have notified our insurance carriers of the demand.

### BSSI/Superbird-6 Litigation

On December 1, 2006, BSSI was served with an arbitration demand in subrogation brought by insurers for Space Communications Corporation alleging breach of warranty, breach of contract and gross negligence relating to the Superbird-6 communications satellite, which suffered a low perigee event shortly after launch in April 2004. The low orbit allegedly damaged the satellite, and a subsequent decision to de-orbit the satellite was made less than 12 months after launch. The model 601 satellite was manufactured by BSSI and delivered for launch by International Launch Services on an Atlas launch vehicle. The insurers seek to recover in excess of \$215 from BSSI. We believe the insurers' claims lack merit and intend to vigorously defend against them.

### Note 23—Other Commitments and Contingencies

As of December 31, 2006 and 2005 we had \$86,254 and \$58,532 of production related purchase obligations not recorded on the Consolidated Statement of Financial Position. Such obligations include agreements for production goods, tooling costs, electricity and natural gas contracts, property, plant and equipment, inventory procurement contracts, and other miscellaneous production related obligations. As of December 31, 2006, the amounts of production related purchase obligations for each of the next five years were as follows: \$34,926 in 2007, \$20,988 in 2008, \$14,088 in 2009, \$7,817 in 2010, and \$4,123 in 2011.

Financing commitments related to aircraft on order, including options, totaled \$10,164 and \$13,496 as of December 31, 2006 and 2005. We anticipate that not all of these commitments will be utilized and that we will be able to arrange for third-party investors to assume a portion of the remaining commitments, if necessary.

In conjunction with signing a definitive agreement for the sale of new aircraft (Sale Aircraft), we have entered into specified-price trade-in commitments with certain customers that give them the right to trade in their used aircraft for the purchase of Sale Aircraft. The total contractual trade-in value was \$1,162 and \$1,395 as of December 31, 2006 and 2005. Based on the best market information available at the time, it was probable that we would be obligated to perform on trade-in commitments with net amounts payable to customers totaling \$19 and \$72 as of December 31, 2006 and 2005. The estimated fair value of trade-in aircraft related to probable contractual trade-in commitments was \$19 and \$50 as of December 31, 2006 and 2005. Probable losses of \$22 have been charged to Cost of products and were included in Accounts payable and other liabilities as of December 31, 2005. These trade-in commitment agreements have expiration dates from 2008 through 2015.

As of December 31, 2006 and 2005, future lease commitments on aircraft and other commitments not recorded on the Consolidated Statements of Financial Position totaled \$323 and \$371. These lease commitments extend through 2020. As of December 31, 2006, the future lease commitments on aircraft for each of the next five years were as follows: \$44 in 2007, \$47 in 2008, \$25 in 2009, \$20 in 2010, and \$18 in 2011. Our intent is to recover these lease commitments through sublease arrangements. As of December 31, 2006 and 2005, Accounts payable and other liabilities included \$65 and \$76 attributable to adverse commitments under these lease arrangements.

We and Lockheed have agreed to make available to ULA a line of credit in the amount of up to \$200 each as may be necessary from time to time to support ULA's Expendable Launch Vehicle business during the five year period following December 1, 2006. ULA did not request any funds under the line of credit as of December 31, 2006.

McDonnell Douglas Corporation insured its executives with Company Owned Life Insurance (COLI), which are life insurance policies with a cash surrender value. Although we do not use COLI currently, these obligations from the merger with McDonnell Douglas are still a commitment at this time. We have loans in place to cover costs paid or incurred to carry the underlying life insurance policies. As of December 31, 2006 and 2005, the cash surrender value was \$288 and \$259 and the total loans were \$279 and \$252. As we have the right to offset the loans against the cash surrender value of the policies, we present the net asset in Other assets on the Consolidated Statements of Financial Position as of December 31, 2006 and 2005.

The costs incurred and expected to be incurred in connection with environmental remediation activities have not had, and are not expected to have, a material adverse effect on us. With respect to results of operations, related charges have averaged less than 1% of historical annual revenues. Although not considered probable or reasonably estimable at this time, it is reasonably possible that we may incur additional remediation charges because of regulatory complexities and the risk of

unidentified contamination. Although not considered probable, should we incur remediation charges at the high level of the range of potential exposure, the additional charges would be less than 2% of historical annual revenues.

As part of the 2004 purchase and sale agreement with General Electric Capital Corporation related to the sale of BCC's Commercial Financial Services business, we are involved in a loss sharing arrangement for losses that may exist at the end of the initial financing terms of transferred portfolio assets, or, in some instances, prior to the end of the financing term, such as certain events of default and repossession. The maximum exposure to loss associated with the loss sharing arrangement is \$218. As of December 31, 2006 and 2005, the accrued liability under the loss sharing arrangement was \$78 and \$81.

Due to lack of demand for the 717 and 757 airplanes, we have concluded production of these airplanes. The last 717 and 757 airplanes were delivered in the second quarter of 2006 and 2005, respectively. The following table summarizes the termination liability remaining in Accounts payable and other liabilities.

Termination liability	December 31, 2005	Payments	Change in Estimate	Other*	December 31, 2006
Supplier termination	\$239	\$(190)	\$(4)		\$45
Production disruption and shutdown related	3				3
Pension/ postretirement related	43		4	\$(47)	
Severance	19	(11)	1		9
<b>Total</b>	<b>\$304</b>	<b>\$(201)</b>	<b>\$ 1</b>	<b>\$(47)</b>	<b>\$57</b>

\*Represents transfer to prepaid pension expense.

The above liability was determined based on available information and we make revisions to our estimates accordingly as new information becomes available.

The Boeing-built NSS-8 satellite was declared a total loss due to an anomaly during launch on January 30, 2007. The NSS-8 satellite was insured for \$200. We believe the NSS-8 loss was the result of an insured event and have so notified our insurance carriers.

As of December 31, 2006, we have delivered 159 of the 190 C-17s ordered by the USAF, with final deliveries scheduled for 2009. Despite pending orders, which would extend deliveries of the C-17 to mid-2009, it is reasonably possible that we will decide in 2007 to suspend work on long-lead items from suppliers and/or to complete production of the C-17 if further orders are not received. We are still evaluating the full financial impact of a production shutdown, including any recovery that would be available from the government.

We have entered into standby letters of credit agreements and surety bonds with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately \$4,368 as of December 31, 2006 and approximately \$3,957 at December 31, 2005.

#### Note 24 – Segment Information

We operate in five principal segments: Commercial Airplanes; Precision Engagement and Mobility Systems, Network and Space Systems, and Support Systems, collectively IDS; and BCC. All other activities fall within the Other segment, principally made up of Engineering, Operations and Technology (formerly, Boeing Technology), Connexion by Boeing<sup>SM</sup> and our Shared Services Group. On August 17, 2006, we announced that we would exit the Connexion by Boeing<sup>SM</sup> high speed broadband communications business having completed a detailed business and market analysis. (See Note 9). Our primary profitability measurements to review a segment's operating results are earnings from operations and operating margins. See page 45 for Summary of Business Segment Data, which is an integral part of this Note.

Our Commercial Airplanes operation principally involves development, production and marketing of commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide.

Our IDS operations principally involve research, development, production, modification and support of the following products and related systems: military aircraft, both land-based and aircraft-carrier-based, including fighter, transport and attack aircraft with wide mission capability, and vertical/short takeoff and landing capability; helicopters and missiles, space systems, missile defense systems, satellites and satellite launching vehicles, and information and battle management systems. Although some IDS products are contracted in the commercial environment, the primary customer is the U.S. Government.

In 2006, we realigned IDS into three capabilities-driven businesses: Precision Engagement and Mobility Systems, Network and Space Systems, and Support Systems. As part of the realignment, certain advanced systems and research and development activities previously included in the Other segment transferred to the new IDS segments. Business segment data for all periods presented has been adjusted to reflect the new segments.

**Precision Engagement and Mobility Systems**

Programs in this segment include AH-64 Apache, CH-47 Chinook, C-17, EA-18G, F/A-18E/F, F-15, F-22A, Joint Direct Attack Munition, P-8A Poseidon, formerly Multi-mission Maritime Aircraft, Small Diameter Bomb, V-22 Osprey, 737 AEW&C, and 767 Tanker.

**Network and Space Systems**

Programs in this segment include Future Combat Systems, Joint Tactical Radio System, and Family of Beyond Line-of-Sight Terminals, which are helping our military customers transform their operations to be network-centric; launch exploration and satellite products and services including the Space Shuttle, International Space Station, and Delta launch services; and missile defense programs including Ground-based Midcourse Defense and Airborne Laser. Also included are military satellite programs and Proprietary programs.

**Support Systems**

Program areas in this segment include Integrated Logistics (AH-64 Apache, C-17, CH-47 Chinook, E-6, F/A-18), Maintenance, Modifications and Upgrades (B-52, C-130 Avionics Modernization Program, KC-10, KC-135, T-38), and Training Systems and Services (AH-64 Apache, C-17, F/A-18, F-15, T-45).

Our BCC segment is primarily engaged in supporting our major operating units by facilitating, arranging, structuring and providing selective financing solutions to our customers and managing our overall financial exposures.

Engineering, Operations and Technology is an advanced research and development organization focused on innovative technologies, improved processes and the creation of new products. Financing activities other than BCC, consisting principally of four C-17 transport aircraft under lease to the UKRAF, are included within the Other segment classification.

While our principal operations are in the United States, Canada, and Australia, some key suppliers and subcontractors are located in Europe and Japan. Revenues by geographic area consisted of the following:

Year ended December 31,	2006	2005	2004
Asia, other than China	\$10,663	\$ 5,554	\$ 6,068
China	2,659	3,154	1,720
Europe	5,445	3,312	4,204
Oceania	1,206	1,283	932
Africa	967	961	604
Canada	660	748	582
Latin America, Caribbean and other	1,431	629	680
	<b>23,031</b>	15,641	14,790
United States	38,499	37,980	36,610
Total revenues	<b>\$61,530</b>	\$53,621	\$51,400

Commercial Airplanes segment revenues were approximately 73%, 76%, and 75% of total revenues in Europe and approximately 78%, 77% and 90% of total revenues in Asia, excluding China, for 2006, 2005 and 2004, respectively. IDS revenues were approximately 22%, 20% and 21% of total revenues in Europe and approximately 21%, 22% and 8% of total revenues in Asia, excluding China, for 2006, 2005 and 2004, respectively. Exclusive of these amounts, IDS revenues were principally to the U.S. Government and represented 46%, 51% and 56% of consolidated revenues for 2006, 2005 and 2004. Approximately 10% of operating assets are located outside the United States.

The information in the following tables is derived directly from the segments' internal financial reporting used for corporate management purposes.

**Research and Development Expense**

Year ended December 31,	2006	2005	2004
Commercial Airplanes	\$2,390	\$1,302	\$ 941
Integrated Defense Systems:			
Precision Engagement and Mobility Systems	404	440	420
Network and Space Systems	301	334	357
Support Systems	86	81	57
Total Integrated Defense Systems	791	855	834
Other	76	48	104
	<b>\$3,257</b>	\$2,205	\$1,879

**Depreciation and Amortization**

Year ended December 31,	2006	2005	2004
Commercial Airplanes	\$ 263	\$ 396	\$ 460
Integrated Defense Systems:			
Precision Engagement and Mobility Systems	141	161	145
Network and Space Systems	231	283	277
Support Systems	38	24	23
Total Integrated Defense Systems	410	468	445
Boeing Capital Corporation	247	257	226
Other	60	40	51
Unallocated	579	365	342
	<b>\$1,559</b>	\$1,526	\$1,524

We recorded earnings from operations associated with our equity method investments of \$50, \$0, and \$8 in our Commercial Airplanes segment and \$96, \$88, and \$85 primarily in our N&SS segment for the years ended December 31, 2006, 2005 and 2004, respectively.

## Notes to Consolidated Financial Statements

For segment reporting purposes, we record Commercial Airplanes segment revenues and cost of sales for airplanes transferred to other segments. Such transfers may include airplanes accounted for as operating leases and considered transferred to the BCC segment and airplanes transferred to the IDS segment for further modification prior to delivery to the customer. The revenues and cost of sales for these transfers are eliminated in the Accounting differences/eliminations caption. In the event an airplane accounted for as an operating lease is subsequently sold, the 'Accounting differences/eliminations' caption would reflect the recognition of revenue and cost of sales on the consolidated financial statements. For segment reporting purposes, we record IDS revenues and cost of sales for the modification performed on airplanes received from Commercial Airplanes when the airplane is delivered to the customer or at the attainment of performance milestones.

Intersegment revenues, eliminated in Accounting differences/eliminations are shown in the following table.

Year ended December 31,	2006	2005	2004
Commercial Airplanes	\$826	\$640	\$638
Boeing Capital Corporation	131	57	33
Other	5	3	9
<b>Total</b>	<b>\$962</b>	<b>\$700</b>	<b>\$680</b>

### Unallocated Expense

Unallocated expense includes costs not attributable to business segments. Unallocated expense also includes the impact of cost measurement differences between GAAP and federal cost accounting standards as well as intercompany profit eliminations. The most significant items not allocated to segments are shown in the following table.

Year ended December 31,	2006	2005	2004
Share-based plans expense	\$ (680)	\$ (999)	\$ (627)
Deferred compensation expense	(211)	(186)	(54)
Pension	(369)	(846)	27
Postretirement	(103)	(5)	(285)
Capitalized interest	(48)	(47)	(48)
Other	(322)	(324)	(324)
<b>Total</b>	<b>\$(1,733)</b>	<b>\$(2,407)</b>	<b>\$(1,311)</b>

Unallocated assets primarily consist of cash and investments, prepaid pension expense, net deferred tax assets, capitalized interest and assets held by our Shared Services Group as well as intercompany eliminations. Unallocated liabilities include various accrued employee compensation and benefit liabilities, including accrued retiree health care, net deferred tax liabilities and income taxes payable. Debentures and notes payable are not allocated to other business segments except for the portion related to BCC. Unallocated capital expenditures relate primarily to Shared Services Group assets and segment assets managed by Shared Services Group, primarily IDS.

Segment assets, liabilities, capital expenditures and backlog are summarized in the tables below.

### Assets

As of December 31,	2006	2005	2004
Commercial Airplanes	\$10,296	\$ 7,145	\$ 7,343
Integrated Defense Systems:			
Precision Engagement and			
Mobility Systems	4,769	4,759	3,880
Network and Space Systems	7,206	8,953	8,888
Support Systems	2,696	1,875	1,482
<b>Total Integrated Defense Systems</b>	<b>14,671</b>	<b>15,587</b>	<b>14,250</b>
Boeing Capital Corporation	7,987	9,216	9,678
Other	6,923	6,501	7,250
Unallocated	11,917	21,547	17,703
<b>Total</b>	<b>\$51,794</b>	<b>\$59,996</b>	<b>\$56,224</b>

### Liabilities

As of December 31,	2006	2005	2004
Commercial Airplanes	\$13,109	\$10,979	\$ 6,932
Integrated Defense Systems:			
Precision Engagement and			
Mobility Systems	3,879	3,888	3,577
Network and Space Systems	1,571	2,992	3,227
Support Systems	1,359	1,013	883
<b>Total Integrated Defense Systems</b>	<b>6,809</b>	<b>7,893</b>	<b>7,687</b>
Boeing Capital Corporation	6,082	6,859	7,509
Other	368	385	761
Unallocated	20,687	22,821	22,049
<b>Total</b>	<b>\$47,055</b>	<b>\$48,937</b>	<b>\$44,938</b>

### Capital Expenditures

Year ended December 31,	2006	2005	2004
Commercial Airplanes	\$ 838	\$ 622	\$ 374
Integrated Defense Systems:			
Precision Engagement and			
Mobility Systems	201	237	176
Network and Space Systems	70	174	230
Support Systems	38	30	31
<b>Total Integrated Defense Systems</b>	<b>309</b>	<b>441</b>	<b>437</b>
Boeing Capital Corporation			
Other	58	65	68
Unallocated	476	419	367
<b>Total</b>	<b>\$1,681</b>	<b>\$1,547</b>	<b>\$1,246</b>

### Contractual Backlog (Unaudited)

Year ended December 31,	2006	2005	2004
Commercial Airplanes	\$174,276	\$124,132	\$ 65,482
Integrated Defense Systems:			
Precision Engagement and			
Mobility Systems	24,988	21,815	21,539
Network and Space Systems	8,001	6,324	10,923
Support Systems	9,302	8,366	6,834
<b>Total Integrated Defense Systems</b>	<b>42,291</b>	<b>36,505</b>	<b>39,296</b>
<b>Total</b>	<b>\$216,567</b>	<b>\$160,637</b>	<b>\$104,778</b>