

BOEING CO
Form PRE 14A
March 06, 2006
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

THE BOEING COMPANY

(Name of Registrant as Specified in Its Charter)

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March 24, 2006

Dear Shareholder:

I am pleased to invite you to attend the Company's 2006 Annual Meeting of Shareholders, which will be held on Monday, May 1, 2006, beginning at 10:00 a.m., Central time, in Chicago, Illinois. We will meet at The Field Museum, which is located at 1400 South Lake Shore Drive in Chicago.

Activities at the Annual Meeting will be limited to the items of business listed in the Notice of Annual Meeting of Shareholders. The following items of business will be presented:

- (1) election of ten directors;
- (2) vote on three management proposals to (i) approve The Boeing Company Elected Officer Annual Incentive Plan (ii) approve amendment of The Boeing Company 2003 Incentive Stock Plan and (iii) approve amendments to the Company's Certificate of Incorporation and By-Laws to eliminate certain supermajority voting requirements;
- (3) advisory vote on the appointment of the Company's independent auditors; and
- (4) vote on eight shareholder proposals, if they are presented.

Your Board of Directors recommends a vote for the election of the nominees for director, approval of The Boeing Company Elected Officer Annual Incentive Plan, approval of amendment of The Boeing Company 2003 Incentive Stock Plan, approval of amendments to the Company's Certificate of Incorporation and By-laws to eliminate certain supermajority voting requirements and the advisory vote on the appointment of the Company's independent auditors. The Board recommends a vote against each of the shareholder proposals. We will also report on the activities of the Company. You will have an opportunity to submit questions or comments on matters of interest to shareholders generally.

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, I urge you to complete the accompanying proxy card and return it promptly.

Very truly yours,

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W. James McNerney, Jr.

Chairman of the Board, President and Chief Executive Officer

REQUEST ELECTRONIC DELIVERY OF PROXY DOCUMENTS. Shareholders may elect to receive future distributions of proxy statements and annual reports by e-mail. To take advantage of this service, please see your proxy card and page 65 of this proxy statement for further information.

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THE BOEING COMPANY

Boeing Corporate Headquarters

100 North Riverside Plaza, Chicago, Illinois 60606

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

| | |
|--------------------------|--|
| TIME | Monday, May 1, 2006, 10:00 a.m., Central time. Registration will begin at 8:30 a.m. The Annual Meeting will begin at 10:00 a.m. and conclude at 12:00 p.m. |
| PLACE | The Field Museum, 1400 S. Lake Shore Drive, Chicago, Illinois 60605-2496. |
| AGENDA | <ol style="list-style-type: none">1. Elect ten persons to the Board of Directors for one-year terms expiring in 2007.2. Vote on management proposal to approve The Boeing Company Elected Officer Annual Incentive Plan.3. Vote on management proposal to approve amendment of The Boeing Company 2003 Incentive Stock Plan to increase the number of shares available for issuance under the Plan by 30 million and to make certain other changes.4. Vote on management proposal to approve amendments to Certificate of Incorporation and By-Laws to eliminate certain supermajority vote requirements.5. Cast an advisory vote on the appointment of Deloitte & Touche LLP as independent auditors.6. Vote on shareholder proposal on human rights policies.7. Vote on shareholder proposal on military contracts.8. Vote on shareholder proposal on disclosure of charitable contributions.9. Vote on shareholder proposal on declassification of the board of directors.10. Vote on shareholder proposal on simple majority vote.11. Vote on shareholder proposal on majority voting for director elections.12. Vote on shareholder proposal on independent board chairman.13. Vote on shareholder proposal on shareholder rights plans.14. Transact any other business properly brought before the meeting. |
| RECORD DATE | You can vote if you were a shareholder at the close of business on March 3, 2006. |
| MEETING ADMISSION | <p>Registered Shareholders. An admission ticket is attached to your proxy card. Please bring the admission ticket with you to the meeting.</p> <p>Beneficial Shareholders. Shareholders whose stock is held by a broker or bank (often referred to as holding in street name) should come to the beneficial shareholders table. <i>In order to be admitted, beneficial shareholders must bring account statements or letters from their brokers or banks showing that they owned Boeing stock as of March 3, 2006. In order to vote at the meeting, beneficial shareholders must bring legal proxies, which they can obtain only from their brokers or banks.</i></p> <p>In all cases, shareholders must bring photo identification to the meeting for admission.</p> |
| VOTING BY PROXY | <p>Registered Shareholders and Participants in Savings Plans. Please vote:</p> <ol style="list-style-type: none">1. By Toll-Free Telephone: Call 1-877-PRX-VOTE (1-877-779-8683) to vote by phone;2. By Internet: Go to www.eproxyvote.com/ba to vote on the Internet; or3. By Mail: Mark, sign, date and promptly mail the enclosed proxy card in the postage-paid envelope. Any proxy may be revoked at any time prior to its exercise at the meeting. <p>Beneficial Shareholders. If your shares are held in the name of a broker, bank or other holder of record, follow the voting instructions you receive from the holder of record to vote your shares.</p> |

This proxy statement is issued in connection with the solicitation of a proxy on the enclosed form by the Board of Directors of The Boeing Company for use at the Company's 2006 Annual Meeting of Shareholders. We will begin distributing this proxy statement, a form of proxy and the 2005 Annual Report on or about March 24, 2006.

By Order of the Board of Directors

James C. Johnson

Corporate Secretary

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THE BOEING COMPANY

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

Monday, May 1, 2006

PROXIES AND VOTING AT THE MEETING

Holders of Boeing stock at the close of business on March 3, 2006 are entitled to receive notice of the Annual Meeting and to vote their shares at the Annual Meeting. As of that date, there were approximately 800,957,914 shares of common stock outstanding and approximately 761,287,751 of those shares were eligible to vote. (The shares held in the ShareValue Trust for the Company's ShareValue Plan are not entitled to vote, and shares issued in exchange for shares of Rockwell International Corporation or McDonnell Douglas Corporation that have not been exchanged are not eligible to vote.) There were 183,813 registered shareholders on the record date, and approximately 615,624 beneficial shareholders whose shares were held in street name through a broker or bank.

Shares represented by a properly executed proxy will be voted at the Annual Meeting and, when instructions are given by the shareholder, will be voted in accordance with those instructions. If a proxy is executed and returned but no instructions are given, the shares will be voted according to the recommendations of the Board of Directors. The Board recommends a vote FOR Items 1 through 5 and AGAINST Items 6 through 13.

The Board of Directors is not aware of any business that may properly be brought before the Annual Meeting other than those matters described in this proxy statement. However, the enclosed proxy card gives discretionary authority to persons named on the proxy card to vote the shares in their best judgment if any matters other than those shown on the proxy card are properly brought before the Annual Meeting.

How to Vote

Your vote is important. You can save the Company the expense of a second mailing by voting promptly. Registered shareholders can vote by telephone, the Internet or mail, as described below. If you are a beneficial shareholder, please refer to your proxy card or the information forwarded by your broker, bank or other holder of record to see what options are available to you.

Registered shareholders and savings plan participants may cast their vote by:

- (1) Signing, dating and promptly mailing the proxy card in the enclosed postage-paid envelope;
- (2) Accessing the Internet website www.eproxyvote.com/ba and voting by following the instructions provided on the website; or

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- (3) Calling 1-877-PRX-VOTE (1-877-779-8683) and voting by following the instructions provided on the phone line.

In order to vote via telephone or on the Internet, please have in front of you either your proxy card or, if you have consented to receive your materials electronically, your e-mail notification advising that materials are available online. A phone number and a website are contained on each of the documents. Upon entering either the phone number or the Internet address, you will be instructed on how to proceed.

Proxy cards will be sent to those persons having interests in Boeing stock through participation in the stock funds of the following Company benefit plans (Plans):

1. *The Boeing Company Voluntary Investment Plan*
2. *BAO Voluntary Savings Plan*
3. *Employee Payroll Stock Ownership Plan of McDonnell Douglas Corporation*
4. *Rockwell Automation Retirement Savings Plan for Salaried Employees*
5. *Rockwell Automation Retirement Savings Plan for Hourly Employees*
6. *Rockwell Automation Retirement Savings Plan for Certain Employees*

Plans 1 through 3 listed above are sponsored by Boeing and its subsidiaries for their employees. Plans 4 through 6 listed above are sponsored by Rockwell International Corporation for its employees (the Rockwell Plans), and the Company has no control over them and no responsibility for their administration.

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Shares of Boeing stock held in the Plans (Plan Shares) are registered in the names of the trustees. The participants do not have actual ownership of the Plan Shares and may not vote the Plan Shares directly at the Annual Meeting. However, Plan participants are allocated interests in the shares and may instruct the trustees how to vote such interests. The number of shares of Boeing stock shown on your proxy card includes all registered shares and Plan Shares. Plan Shares can be voted only by submitting proxy instructions, whether by telephone, the Internet or mailing in the printed proxy card; they cannot be voted at the Annual Meeting and prior voting instructions cannot be revoked at the Annual Meeting. If you are a Plan participant, your proxy instructions must be received by the Plan trustee no later than midnight Eastern time on April 26, 2006.

The trustees will cast Plan Share votes according to the participants' instructions. If no instructions are received, the trustees will vote the participants' Plan Shares in accordance with the terms of the Plan, which are as follows: for Plans 1 through 3 listed above, shares will be voted in the same manner and proportion as the shares with respect to which voting instructions have been received unless contrary to ERISA, whereas the trustee for the Rockwell Plans will vote in its own discretion.

Revocation of Proxies

A registered shareholder may revoke a properly executed proxy at any time before its exercise by:

Delivering a written notice of revocation to the Corporate Secretary;

Delivering another proxy that is dated later than the original proxy;

Attending the Annual Meeting and giving notice of revocation to an Inspector of Election; or

Attending the Annual Meeting and voting by ballot.

Beneficial shareholders cannot revoke their proxies in person at the Annual Meeting because the actual shareholders of record, banks or brokers, will not be present. Beneficial shareholders wishing to change their votes after returning voting instructions to their banks or brokers should contact the banks or brokers directly.

Vote Required

The presence at the Annual Meeting, in person or by duly authorized proxy, of the holders of one-third of the outstanding shares of stock entitled to vote constitutes a quorum for the transaction of business. Each share of Boeing stock entitles the holder to one vote on each matter presented for shareholder action. A plurality of votes cast is required for the election of directors. This means that the director nominee with the most votes for a particular slot is elected to that slot. Only votes for affect the outcome. Checking the box on the proxy card that withholds authority to vote for a nominee is the equivalent of abstaining. Abstentions are not counted for the purpose of election of directors.

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With respect to each of the proposals other than the election of directors (i.e., Items 2-13), shareholders may vote in favor of the proposal or against the proposal, or abstain from voting. The affirmative vote of the majority of shares present in person or by proxy and entitled to vote at the Annual Meeting is required under Delaware law for approval of Items 2-3 and Items 5-13. In addition to the Delaware law requirements, the rules of the New York Stock Exchange (NYSE) require approval by a majority of votes cast on Item 3, provided that the total votes cast on the proposal must represent over 50% in interest of all securities entitled to vote on the proposal. **A shareholder who signs and submits a ballot or proxy is present, so an abstention will have the same effect as a vote against Items 2-3 and Items 5-13.** The affirmative vote of a majority of outstanding shares entitled to vote for the election of directors is required for approval of Item 4. Because approval is based on a threshold of a majority of all shares entitled to vote, an abstention will have the same effect as a vote against the proposal.

Under NYSE rules, if your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors and Item 5, even if it does not receive voting instructions from you. Items 2-4, and 6-13 of this proxy statement are non-discretionary, meaning that brokers who hold shares for the accounts of their clients and who have not received instructions from their clients do not have discretion to vote on those items. When a broker votes a client's shares on some but not all of the proposals at the Annual Meeting, the missing votes are referred to as broker non-votes. Those shares will be included in determining the presence of a quorum at the Annual Meeting but are not considered present for purposes of voting on the non-discretionary items. Because broker non-votes are not counted as votes cast under the NYSE approval requirements, they could have an impact on

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satisfaction of the NYSE requirement that the total votes cast on Item 3 represent over 50% in interest of all securities entitled to vote on the proposal.

Expenses of Solicitation

All expenses for soliciting proxies will be paid by the Company, which has retained Georgeson Shareholder Communications Inc. (Georgeson), 17 State Street, New York, New York 10004, to aid in the solicitation of proxies, for fees of approximately \$15,000, plus additional expenses of approximately \$110,000. Proxies may be solicited by personal interview, mail and telephone. Georgeson has contacted brokerage houses, other custodians and nominees to ask whether other persons are the beneficial owners of the shares they hold in street name and, if that is the case, will supply additional copies of the proxy materials for distribution to such beneficial owners. The Company will reimburse such parties for their reasonable expenses in sending proxy materials to the beneficial owners of the shares.

Voting Results

The Company will announce preliminary voting results at the Annual Meeting. Final official results will be printed in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006 (available at www.sec.gov and www.boeing.com).

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

ITEM 1. ELECTION OF DIRECTORS

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE FOR ALL NOMINEES.

The Board of Directors of the Company, pursuant to the By-Laws, has determined the number of directors of the Company will be eleven, which number will be reduced to ten as of the Annual Meeting because Gen. Shalikhshvili will retire when his term expires at the Annual Meeting. The Company is grateful to Gen. Shalikhshvili for his six years of distinguished service on the Board.

Pursuant to the By-Laws, each director is elected annually to a one-year term. Directors are elected by a plurality of the votes cast. Each nominee elected as a director will continue in office until his or her successor has been elected, or until his or her death, resignation or retirement. Each nonemployee director must retire at the annual meeting following his or her 72nd birthday. If any nominee is unable to serve, proxies will be voted for the election of such person as shall be designated by the Board, unless the Board chooses to reduce the number of directors serving on the Board.

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The Board of Directors has proposed the ten nominees listed below for election as directors at the Annual Meeting with one-year terms expiring in 2007. Except as otherwise specified in a proxy, proxies will be voted for these nominees.

The Governance, Organization and Nominating Committee of the Board of Directors identifies and recommends to the Board the nominees to fill any vacancies on the Board and nominees to be proposed by the Board as candidates for election as directors. In general, the Governance, Organization and Nominating Committee works with a third-party search firm to identify potential candidates to sit on the Board of Directors. The Company's newest director, William M. Daley, was initially suggested as a candidate by the Chairman and Chief Executive Officer of the Company. Mr. Daley met the Governance, Organization and Nominating Committee's candidate criteria and was interviewed by representatives of the Company and the Board. Based on these interviews, Mr. Daley was selected by the Governance, Organization and Nominating Committee and approved by the Board. Mr. Daley was named a director by the Board effective February 26, 2006 and is standing for election for the first time. The Board has determined that each of the nominees for director meets the criteria for independence prescribed by the NYSE listing standards and has either no relationships with the Company (other than being a director and shareholder of the Company) or only immaterial relationships with the Company, except for W. James McNerney who is not an independent director because he is President and Chief Executive Officer of the Company.

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NOMINEES FOR DIRECTORS

| Name | Principal Occupation or Employment/Other Business Affiliations | Age | Director Since |
|-----------------------|--|-----|----------------|
| John H. Biggs | Former Chairman and Chief Executive Officer, Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Mr. Biggs served as Chairman and Chief Executive Officer of TIAA-CREF (national teachers' pension fund) from January 1993 until November 2002. He is also a director of J.P. Morgan Chase & Co. and the National Bureau of Economic Research. He is a trustee of Washington University in St. Louis. Mr. Biggs is a member of the Advisory Council of the Public Company Accounting Oversight Board. He is Chair of the Audit Committee and a member of the Finance Committee. | 69 | 1997 |
| John E. Bryson | Chairman of the Board, President and Chief Executive Officer, Edison International. Mr. Bryson has served as Chairman of the Board, President and Chief Executive Officer of Edison International (electric power generator, distributor and structured finance provider), the parent company of Southern California Edison, since 1990. He is a director of The Walt Disney Company. He is a member of the Compensation Committee and the Governance, Organization and Nominating Committee. | 62 | 1995 |
| Linda Z. Cook | Executive Director Gas & Power, Royal Dutch Shell plc. Ms. Cook was appointed Executive Director Gas & Power in October 2004, and Managing Director, Royal Dutch Petroleum Company, CEO Shell Gas & Power (integrated petroleum), in August 2004. Previously, she served as President and Chief Executive Officer and a member of the Board of Directors of Shell Canada Limited from August 2003 until August 2004. She served as Chief Executive Officer for Shell Gas & Power from January 2000 through July 2003. She previously served as Director, Strategy & Business Development on the Shell Exploration & Production Global Executive Committee based in The Hague. Ms. Cook is a member of the Society of Petroleum Engineers. She is a member of the Audit Committee and the Finance Committee. | 47 | 2003 |
| William M. Daley | Chairman of Midwest region for JPMorgan Chase & Co. Mr. Daley has served as Chairman of Midwest region for JPMorgan Chase & Co. (banking and financial services) and on its Executive Committee and International Council since May 2004. He served as the U.S. Secretary of Commerce from January 1997 to June 2000. Mr. Daley served as president, SBC Communications, Inc. (diversified telecommunications) from December 2001 to May 2004. He was vice chairman of Evercore Capital Partners L.P. from January to November 2001. From June to December 2000, Mr. Daley served as chairman of Vice President Albert Gore's 2000 presidential election campaign. He also serves as a director of Abbott Laboratories (healthcare products manufacturer) and Boston Properties, Inc. (real estate investment trust). Mr. Daley is a member of the Finance Committee. | 57 | 2006 |
| Kenneth M. Duberstein | Chairman and Chief Executive Officer, The Duberstein Group. Mr. Duberstein has served as Chairman and Chief Executive Officer of The Duberstein Group (consulting firm) since 1989. He was White House Chief of Staff in 1988 and 1989. Mr. Duberstein is also a director of ConocoPhillips, Fannie Mae, Mack-Cali Realty Corporation and St. Paul Travelers Companies. He is the Lead Director, Chair of the Compensation Committee and a member of the Governance, Organization and Nominating Committee. | 61 | 1997 |

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| Name | Principal Occupation or Employment/Other Business Affiliations | Age | Director Since |
|------------------------|--|------------|-----------------------|
| John F. McDonnell | Retired Chairman, McDonnell Douglas Corporation. Mr. McDonnell served as Chairman of McDonnell Douglas Corporation (aerospace) from 1988 until its merger with Boeing in 1997, and as its Chief Executive Officer from 1988 to 1994. He is also a director of Zoltek Companies, Inc., and BJC Healthcare. He is a member of the Compensation Committee and the Governance, Organization and Nominating Committee. | 68 | 1997 |
| W. James McNerney, Jr. | Chairman, President and Chief Executive Officer, The Boeing Company. Mr. McNerney has served as Chairman and Chief Executive Officer of the Boeing Company since July 1, 2005. Previously, he served four and a half years as Chairman and Chief Executive Officer of 3M Company (diversified technology). Beginning in 1982, he served in management positions at General Electric Company, his most recent being President and Chief Executive Officer of GE Aircraft Engines from 1997 until 2000. Mr. McNerney is also a director of The Procter & Gamble Company and a member of various business and educational organizations. He is a member of the Special Programs Committee. | 56 | 2001 |
| Richard D. Nanula | Chief Financial Officer, Amgen, Inc. Mr. Nanula has served as Chief Financial Officer of Amgen, Inc. (biotechnology) since August 2001 and as Executive Vice President since May 2001. He is a member of Amgen's executive committee. Mr. Nanula served as Chairman and Chief Executive Officer at Broadband Sports Inc. (Internet media company) from 1999 until 2001. He served as President and Chief Operating Officer for Starwood Hotels and Resorts in New York from 1998 until 1999. He held a variety of executive positions at the Walt Disney Company from 1986 until 1998, including Senior Executive Vice President, Chief Financial Officer and President of Disney Stores Worldwide. He is a member of the Audit Committee and the Finance Committee. | 45 | 2005 |
| Rozanne L. Ridgway | Former Assistant Secretary of State for Europe and Canada. Ms. Ridgway served 32 years with the U.S. State Department, including service as Ambassador to the German Democratic Republic and to Finland, and, from 1985 until her retirement in 1989, as Assistant Secretary of State for Europe and Canada. She is also a director of Emerson Electric Company, 3M Company, Sara Lee Corporation, Manpower Inc., and three mutual funds of the American Funds family of funds. She is the Chair of the Governance, Organization and Nominating Committee and a member of the Compensation Committee. | 70 | 1992 |
| Mike S. Zafirovski | Director, President and Chief Executive Officer, Nortel Networks Corporation. Mr. Zafirovski has served as Director, President and Chief Executive Officer of Nortel Networks Corporation (telecommunications) since November 2005. Previously, Mr. Zafirovski was President and Chief Operating Officer of Motorola, Inc. (global communications) from July 2002 until January 2005. He was a consultant to and a director of Motorola until May 2005. He served as Executive Vice President and President of the Personal Communications Sector of Motorola, Inc. from June 2000 until July 2002. Prior to joining Motorola, Mr. Zafirovski spent 24 years with General Electric Company, where he served in management positions, his most recent being President and CEO of GE Lighting from July 1999 to May 2000. He is Chair of the Finance Committee and a member of the Audit Committee. | 52 | 2004 |

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BOARD MEMBERSHIP AND DIRECTOR INDEPENDENCE

The Company's business affairs are managed under the direction of the Board of Directors. Directors meet their responsibilities by participating in meetings of the Board and Board committees on which they sit, through communications with our Chief Executive Officer and other officers, by reviewing materials provided to them, and by visiting our offices and plants.

During 2005, the Board of Directors met ten times, having six regular meetings and four special meetings. Directors as a group attended 94% of the Board meetings. The committees of the Board of Directors held a total of 37 meetings. Directors as a group attended 95% of the Committee meetings. Each director attended at least 81% of the meetings of the Board and the committees on which he or she served, except, due to health issues, John M. Shalikashvili, who attended 72% of the meetings of the Board and the committees on which he served. Each director is expected to attend the Company's annual meeting of shareholders. Last year, all directors attended the annual meeting of shareholders, except Rozanne L. Ridgway and Gen. Shalikashvili due to health issues.

The Board of Directors has adopted the following Director Independence Standards to assist in determining whether a director does not have material relationships with the Company and thereby qualifies as independent.

To be considered independent the Board of Directors must make an affirmative determination, by a resolution of the Board as a whole, that the director being reviewed has no material relationship with the Company other than as a director, either directly or indirectly (such as a partner, shareholder or executive officer of another entity that has a relationship with the Company). In each case, the Board broadly considers all relevant facts and circumstances.

A director will not be deemed to be independent if, within the preceding three years:

(a) the director was employed by the Company or any of its direct or indirect subsidiaries;

(b) an immediate family member of the director was employed by the Company as an executive officer;

(c) the director, or an immediate family member, is a current partner of a firm that is the Company's internal or external auditor or within the last three years (but no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;

(d) the director is a current employee of the Company's internal or external auditor;

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(e) an immediate family member of the director is a current employee of the Company's internal or external auditor and that person participates in the firm's audit, assurance or tax compliance (but not tax planning) practice;

(f) a director, or an immediate family member, received more than \$100,000 annually in direct compensation from the Company, other than director and committee fees and pensions or other forms of deferred compensation, so long as such compensation is not contingent on continued service;

(g) a director was employed as an executive officer of another company where any of the Company's current executives serve on that company's compensation committee;

(h) an immediate family member of the director was employed as an executive officer of another company where any of the Company's current executives serve on that company's compensation committee;

(i) a director was an executive officer or an employee of a company that makes payments to or receives payments from the Company for property or services in an amount that exceeds in any single fiscal year \$1,000,000 or 2% of that company's consolidated gross revenues, whichever is greater; or

(j) an immediate family member is an executive officer of a company that makes payments to or receives payments from the Company for property or services in an amount that exceeds in any single fiscal year \$1,000,000 or 2% of that company's consolidated gross revenues, whichever is greater.

An immediate family member includes a director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone (other than domestic employees) who shares such director's home; however, it does not include stepchildren who do not share a stepparent's home or the in-laws of such stepchildren.

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The Board of Directors has determined that the following relationships are not considered to be material and would not impair a director's independence:

(a) a director serves as an employee of an organization that has purchased property or services from the Company, or provided property or services for the Company, if (i) payments for such property or services have not exceeded the greater of \$1 million or 1% of that organization's, or the Company's, consolidated gross revenues in each of the past three fiscal years and are not expected to exceed this threshold in 2006 and (ii) the director is not compensated directly or indirectly as a result of this relationship other than that the payments add to the revenue of either the organization or the Company, or

(b) a director's service as an executive officer of a not-for-profit organization if, within the preceding three years, the Company's charitable contributions to the organization in any single fiscal year, in the aggregate, do not exceed the greater of \$1,000,000 or 2% of that organization's consolidated gross revenues.

The Board of Directors will review all commercial and charitable relationships of directors on an annual basis.

The mere ownership of a significant amount of stock is not in and of itself a bar to an independence determination but rather one factor to consider.

Whether directors meet these categorical independence tests will be reviewed and will be made public annually prior to their standing for re-election to the Board of Directors. For relationships not covered by these guidelines, the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, shall be made by the directors who themselves satisfy the independence guidelines.

The Board has reviewed the relationships between the Company and each of its directors and has determined that John H. Biggs, John E. Bryson, Linda Z. Cook, William M. Daley, Kenneth M. Duberstein, John F. McDonnell, Richard D. Nanula, Rozanne L. Ridgway, John M. Shalikashvili and Mike S. Zafirovski are independent under the NYSE independent director listing standards and the Company's Director Independence Standards and have either no relationships with the Company (other than being a director and shareholder of the Company) or only immaterial relationships with the Company. W. James McNerney is not an independent director because he is President and Chief Executive Officer of the Company.

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COMMITTEE MEMBERSHIP

Pursuant to the By-Laws, the Board of Directors has established the following standing committees: Audit, Compensation, Governance, Organization and Nominating, Finance, and Special Programs. All the members of each of these standing committees other than the Special Programs Committee meet the criteria for independence prescribed by the NYSE. Membership of the standing committees is determined at the organizational meeting of the Board in conjunction with the annual meeting. Adjustments to committee assignments may be made as of that date or such other date as the Board deems appropriate.

Membership of each committee is as follows, with committee chairpersons listed first.

Audit

Compensation