PROXY PAPER

# THE BOEING COMPANY

NYSE: **BA**

ISIN: **US0970231058**

| | | | |
|---|---|---|---|
| **MEETING DATE:** | 27 APRIL 2020 | **INDEX MEMBERSHIP:** | RUSSELL 3000; DOW JONES COMPOSITE AVERAGE; DOW JONES INDUSTRIAL AVERAGE; RUSSELL 1000; S&P 100; S&P 500 |
| **RECORD DATE:** | 27 FEBRUARY 2020 | **SECTOR:** | INDUSTRIALS |
| **PUBLISH DATE:** | 03 APRIL 2020 | **INDUSTRY:** | AEROSPACE AND DEFENSE |
| | | **COUNTRY OF TRADE:** | UNITED STATES |
| | | **COUNTRY OF INCORPORATION:** | UNITED STATES |
| | | **HEADQUARTERS:** | ILLINOIS |
| | | **VOTING IMPEDIMENT:** | NONE |

**COMPANY DESCRIPTION**

The Boeing Company, together with its subsidiaries, designs, develops, manufactures, sales, services, and supports commercial jetliners, military aircraft, satellites, missile defense, human space flight and launch systems, and services worldwide.



## 2020 ANNUAL MEETING

| PROPOSAL | ISSUE | BOARD | GLASS LEWIS | CONCERNS |
|---|---|---|---|---|
| 1.00 | Election of Directors | FOR | **SPLIT** | |
| 1.01 | Elect Robert A. Bradway | FOR | **FOR** | |
| 1.02 | Elect David L. Calhoun | FOR | **FOR** | |
| 1.03 | Elect Arthur D. Collins, Jr. | FOR | **FOR** | |
| 1.04 | Elect Edmund P. Giambastiani, Jr. | FOR | **FOR** | |
| 1.05 | Elect Lynn J. Good | FOR | **FOR** | |
| 1.06 | Elect Akhil Johri | FOR | **FOR** | |
| 1.07 | Elect Lawrence W. Kellner | FOR | **AGAINST** | • **Other unique issue** |
| 1.08 | Elect Caroline B. Kennedy | FOR | **FOR** | |
| 1.09 | Elect Steven M. Mollenkopf | FOR | **FOR** | |
| 1.10 | Elect John M. Richardson | FOR | **FOR** | |
| 1.11 | Elect Susan C. Schwab | FOR | **FOR** | |
| 1.12 | Elect Ronald A. Williams | FOR | **FOR** | |
| 2.00 | Advisory Vote on Executive Compensation | FOR | **AGAINST** | • **Excessive payment at separation** |
| 3.00 | Ratification of Auditor | FOR | **FOR** | |
| 4.00 | Shareholder Proposal Regarding Disclosure of Board Qualifications | AGAINST | **AGAINST** | |
| 5.00 | Shareholder Proposal Regarding Lobbying Report | AGAINST | **FOR** | • **Increased disclosure would allow shareholders to more fully assess risks presented by the Company's indirect lobbying activities** |
| 6.00 | Shareholder Proposal Regarding Independent Chair | AGAINST | **AGAINST** | |

| | | | | |
|---|---|---|---|---|
| 7.00 | Shareholder Proposal Regarding Right to Act by Written Consent | AGAINST | **FOR** | • **Shareholder action by written consent enables shareholders to take action on important issues that arise between annual meetings** |
| 8.00 | Shareholder Proposal Regarding Retention of Shares Until Normal Retirement Age | AGAINST | **AGAINST** | |
| 9.00 | Shareholder Proposal Regarding Disclosure of Adjustments to Non-GAAP Metrics in Executive Compensation | AGAINST | **AGAINST** | |

## DISCLOSURE NOTES

**EXPLANATION FOR REPUBLICATION:** 8th April, 2020. We have updated Proposal 5 to include a link to an exempt solicitation filed by the proponent. We have also updated the proposal to include the name of the proponent, which was not initially disclosed by the Company. None of our recommendations have changed as a result.

10th April 2020: Revision 1) The Company has terminated its share repurchase plan, not suspended as previously mentioned and 2) J. Michael Luttig served as an advisor to the board and has been removed from the board changes table.

**CONFLICT OF INTERESTS:** 7th April 2020. Boeing Company purchased a copy of this Proxy Paper from Glass Lewis and was granted access to the report at the same time as Glass Lewis' institutional investor clients

**COVID-19:** Due to public health concerns stemming from COVID-19, the Company is holding its 2020 annual meeting in a virtual-only format. For more information regarding Glass Lewis' policy on virtual meetings, in effect for meetings held 1 March 2020 through 30 June 2020, please visit our website.

**ISSUER DATA REPORT:** The Boeing Company participated in Glass Lewis' Issuer Data Report program (IDR) for this meeting. The IDR program enables companies to preview the key data points used by Glass Lewis' research team, and address any factual errors with Glass Lewis prior to the publication of the Proxy Paper to Glass Lewis' clients. No voting recommendations or analyses are provided as part of the IDR. For more information on the IDR program, please visit https://www.glasslewis.com/issuer-data-report/

## ENGAGEMENT MEETINGS

Glass Lewis held the following engagement meetings within the past year:

| ENGAGED WITH | MEETING DATE | ORGANIZER | TYPE OF MEETING | TOPICS DISCUSSED |
|---|---|---|---|---|
| Issuer | Feb 26, 2020 | Issuer | Teleconference/Web-Meeting | Board-Related, Company Performance/Strategy, Compensation/Remuneration, Environmental and Social, Executive Structure/Succession |

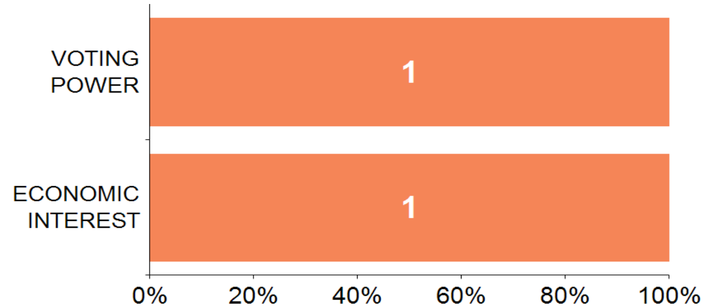
For further information regarding our engagement policy, please visit http://www.glasslewis.com/engagement-policy/.

# SHARE OWNERSHIP PROFILE

## SHARE BREAKDOWN

| | 1 |
|---|---|
| **SHARE CLASS** | Common Shares |
| **SHARES OUTSTANDING** | 564.2 M |
| **VOTES PER SHARE** | 1 |
| **INSIDE OWNERSHIP** | 0.10% |
| **STRATEGIC OWNERS**** | 5.60% |
| **FREE FLOAT** | 94.40% |

*SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 03-APR-2020*




## TOP 20 SHAREHOLDERS

| | HOLDER | OWNED* | COUNTRY | INVESTOR TYPE |
|---|---|---|---|---|
| 1. | The Vanguard Group, Inc. | 7.23% | United States | Traditional Investment Manager |
| 2. | Capital Research and Management Company | 7.20% | United States | Traditional Investment Manager |
| 3. | BlackRock, Inc. | 6.11% | United States | Traditional Investment Manager |
| 4. | The Boeing Company Employee Savings Plans Master Trust | 5.44% | United States | Corporate Pension Plan Sponsor |
| 5. | T. Rowe Price Group, Inc. | 5.31% | United States | Traditional Investment Manager |
| 6. | State Street Global Advisors, Inc. | 4.66% | United States | Traditional Investment Manager |
| 7. | Geode Capital Management, LLC | 1.27% | United States | Traditional Investment Manager |
| 8. | UBS Asset Management | 1.05% | Switzerland | Traditional Investment Manager |
| 9. | Northern Trust Global Investments | 1.02% | United Kingdom | Traditional Investment Manager |
| 10. | Janus Henderson Group plc | 0.90% | United Kingdom | Traditional Investment Manager |
| 11. | FMR LLC | 0.90% | United States | Traditional Investment Manager |
| 12. | Morgan Stanley, Investment Banking and Brokerage Investments | 0.80% | United States | Bank/Investment Bank |
| 13. | Jennison Associates LLC | 0.76% | United States | Traditional Investment Manager |
| 14. | Teachers Insurance and Annuity Association of America - College Retirement Equities Fund | 0.74% | United States | Traditional Investment Manager |
| 15. | Susquehanna International Group, LLP, Asset Management Arm | 0.74% | United States | Bank/Investment Bank |
| 16. | BNY Mellon Asset Management | 0.71% | United States | Traditional Investment Manager |
| 17. | Legal & General Investment Management Limited | 0.47% | United Kingdom | Traditional Investment Manager |
| 18. | Franklin Resources, Inc. | 0.46% | United States | Traditional Investment Manager |
| 19. | Charles Schwab Investment Management, Inc. | 0.43% | United States | Traditional Investment Manager |
| 20. | Sumitomo Mitsui Trust Asset Management Co., Ltd. | 0.40% | Japan | Traditional Investment Manager |

**COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 03-APR-2020*
***CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.*

## SHAREHOLDER RIGHTS

| | MARKET THRESHOLD | COMPANY THRESHOLD[1] |
|---|---|---|
| VOTING POWER REQUIRED TO CALL A SPECIAL MEETING | N/A | 25.00% |
| VOTING POWER REQUIRED TO ADD AGENDA ITEM | 1.00%[2] | 1.00%[2] |
| VOTING POWER REQUIRED FOR WRITTEN CONSENT | N/A | N/A |

*[1] N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.*
*[2] SHAREHOLDERS MUST OWN THE CORRESPONDING PERCENTAGE OR SHARES WITH MARKET VALUE OF AT LEAST $2,000 FOR AT LEAST ONE YEAR.*

# COMPANY PROFILE

## FINANCIALS

| | 1 YR TSR | 3 YR TSR AVG. | 5 YR TSR AVG. |
|---|---|---|---|
| **BA** | *3.3%* | *30.9%* | *23.3%* |
| **S&P 500** | *31.5%* | *15.3%* | *11.7%* |
| **PEERS*** | *30.8%* | *19.4%* | *16.3%* |

| | |
|---|---|
| **MARKET CAPITALIZATION (MM USD)** | 183,335 |
| **ENTERPRISE VALUE (MM USD)** | 202,699 |
| **REVENUES (MM USD)** | 76,559 |

*ANNUALIZED SHAREHOLDER RETURNS. *PEERS ARE BASED ON THE INDUSTRY SEGMENTATION OF THE GLOBAL INDUSTRIAL CLASSIFICATION SYSTEM (GICS). FIGURES AS OF 31-DEC-2019. SOURCE: CAPITAL IQ*

## EXECUTIVE COMPENSATION

| CHANGE IN CEO PAY | 1 YR | 3 YR | 5 YR |
|---|---|---|---|
| | *-39%* | *-5%* | *-50%* |

| | | | |
|---|---|---|---|
| **SAY ON PAY FREQUENCY** | *1 Year* | **COMPENSATION GRADE** | *N/A* |
| **GLASS LEWIS STRUCTURE RATING** | *Fair* | **GLASS LEWIS DISCLOSURE RATING** | *Fair* |
| **SINGLE TRIGGER CIC VESTING** | *No* | **EXCISE TAX GROSS-UPS** | *No* |
| **CLAWBACK PROVISION** | *Yes* | **OVERHANG OF INCENTIVE PLANS** | *3.28%* |

## CORPORATE GOVERNANCE

| | | | |
|---|---|---|---|
| **ELECTION METHOD** | *Majority w/ Resignation Policy* | **CEO START DATE** | *January 2020* |
| **CONTROLLED COMPANY** | *No* | **AVERAGE NED TENURE** | *6 years* |
| **DUAL-CLASS VOTING** | *No* | **% OF WOMEN ON BOARD** | *25.0%* |
| **STAGGERED BOARD** | *No* | **ALLOWS PROXY ACCESS** | *Yes* |
| **COMBINED CHAIR/CEO** | *No* | **VIRTUAL-ONLY MEETING** | *Yes* |
| **BOARD SKILLS MATRIX DISCLOSED** | *No* | | |

## ANTI-TAKEOVER MEASURES

| | |
|---|---|
| **POISON PILL** | *No* |
| **APPROVED BY SHAREHOLDERS/EXPIRATION DATE** | *N/A; N/A* |

## AUDITORS

| | |
|---|---|
| **AUDITOR:** DELOITTE & TOUCHE | **TENURE:** 86 YEARS |
| **MATERIAL WEAKNESS(ES) IDENTIFIED IN PAST 12 MONTHS** | *No* |
| **RESTATEMENT(S) IN PAST 12 MONTHS** | *No* |

## SASB MATERIALITY

**PRIMARY SASB INDUSTRY:** Aerospace & Defense

**FINANCIALLY MATERIAL TOPICS:**

- *Energy Management*
- *Data Security*
- *Fuel Economy & Emissions in Use-phase*
- *Business Ethics*
- *Hazardous Waste Management*
- *Product Safety*
- *Materials Sourcing*

*CURRENT AS OF APR 03, 2020*

# ENVIRONMENTAL, SOCIAL & GOVERNANCE PROFILE

## ESG Risk Rating

| Negligible | Low | Med | **High** | Severe |
|---|---|---|---|---|

All data and ratings provided by:

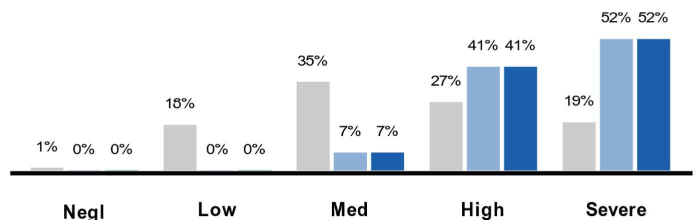
SUSTAINALYTICS

Data Received On: **April 03, 2020**

### Rating Overview

The company is at high risk of experiencing material financial impacts from ESG factors, due to its high exposure and average management of material ESG issues. Notably, its overall risk is higher since it is materially exposed to significantly more ESG issues than most companies in our universe. Despite its management policies and programmes, the company has experienced a high level of controversies.

### ESG Risk Rating Distribution




### Relative Performance

| | Rank* | Percentile* |
|---|---|---|
| Global Universe | 9896 of 12273 | **81st** |
| Aerospace & Defense (Industry Group) | 34 of 79 | **43rd** |
| Aerospace and Defence (Subindustry) | 34 of 79 | **43rd** |

** 1st = lowest risk*

### Exposure to ESG Risk

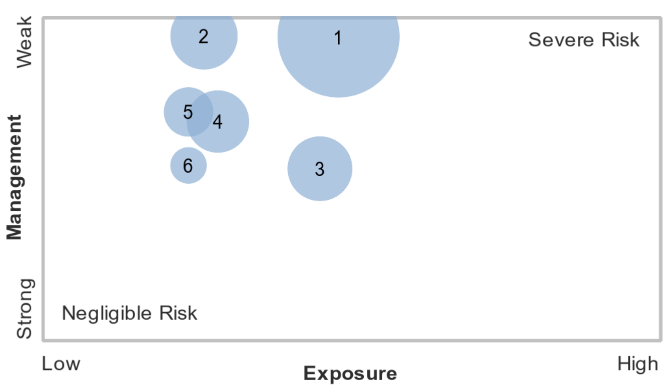
| Low | Medium | **High** |
|---|---|---|

### Management of ESG Risk

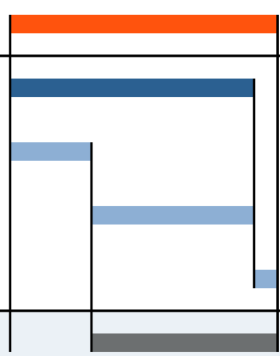
| Strong | **Average** | Weak |
|---|---|---|

| Top Material Issues | ESG Risk Rating |
|---|---|
| ▲4 1 Product Governance | Severe |
| ▲3 2 Business Ethics | Med |
| 3 Corporate Governance | Med |
| 4 Carbon - Products and Services | Med |
| 5 Data Privacy and Security | Low |
| 6 Human Capital | Low |

▲ = *Noteworthy Controversy Level*




### Risk Details



| | |
|---|---|
| **Exposure** | |
| Company Exposure | The company's sensitivity or vulnerability to ESG risks. |
| **Management** | |
| Manageable Risk | Material ESG risk that can be influenced and managed through suitable policies, programmes and initiatives. |
| Managed Risk | Material ESG risk that has been managed by a company through suitable policies, programmes or initiatives. |
| Management Gap | Measures the difference between material ESG risk that could be managed by the company and what the company is managing. |
| Unmanageable Risk | Material ESG risk inherent in the products or services of a company and/or the nature of a company's business, which cannot be managed by the company. |
| **ESG Risk Rating** | |
| Overall Unmanaged Risk | Material ESG risk that has not been managed by a company, and includes two types of risk: unmanageable risk, as well as risks that could be managed by a company through suitable initiatives but which may not yet be managed. |

## NOTEWORTHY CONTROVERSIES

### SEVERE

Severe controversies are the most serious controversy level. They have the greatest negative impact on stakeholders and generate the greatest risk to a company's financial performance. Such controversies are highly exceptional. They indicate egregious practices and generally reflect a pattern of gross negligence, with the Company refusing to address the issue and/or concealing its involvement.

- **No severe controversies**

### HIGH

High-impact controversies are those that have major negative sustainability impacts and typically generate significant business risk to the Company. Such controversies are generally exceptions within an industry. They typically involve a pattern of negative events or impacts and indicate a lack of company preparedness to properly manage key sustainability issues.

- **Quality and Safety**

### SIGNIFICANT

Significant controversies have notable negative sustainability impacts and may generate business risk to the Company. Such controversies may be isolated or they may suggest a pattern, but they are generally not exceptional within an industry. However, they raise questions about whether a company's management systems are being implemented effectively and are able to address the issue in a satisfactory manner.

- **Weapons**

## PRODUCT INVOLVEMENT*

Controversial Weapons

**Range: Not applicable**

The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.

## NO PRODUCT INVOLVEMENT

Alcoholic Beverages | Oil Sands | Arctic Drilling | Genetically Modified Plants & Seeds | Pesticides | Adult Entertainment | Gambling | Tobacco | Thermal Coal

* Range values represent the percentage of the Company"s revenue. N/A is shown where Sustainalytics captures only whether or not the Company is involved in the product.

## DISCLAIMER

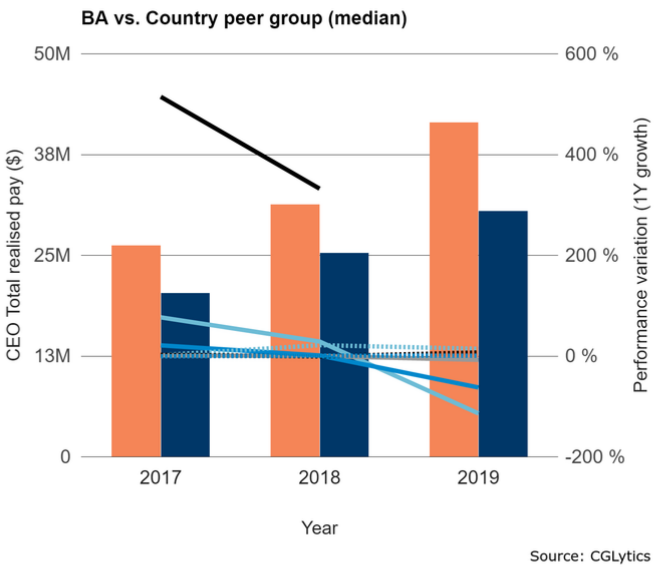


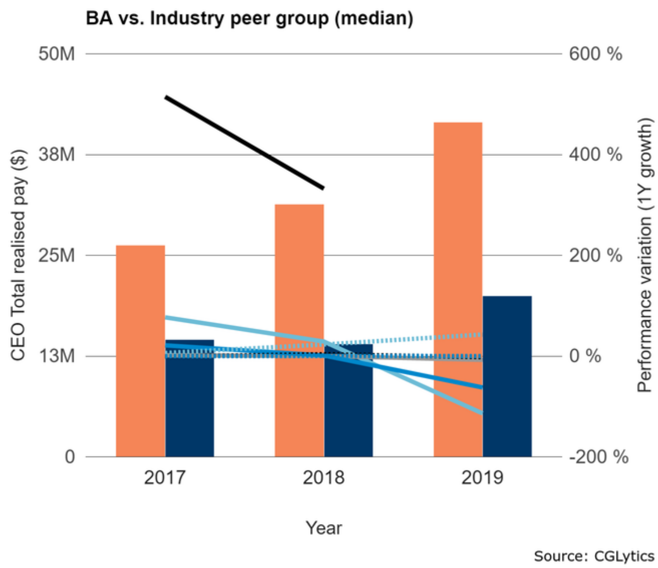
All data and ratings provided by:

SUSTAINALYTICS

https://www.sustainalytics.com/

# COMPENSATION ANALYSIS




| Total realised pay (BA) | Total realised pay (Peers) | EPS (BA) | ROA (BA) | ROE (BA) | ROIC (BA) | EPS (Peers) | ROA (Peers) | ROE (Peers) | ROIC (Peers) |
|---|---|---|---|---|---|---|---|---|---|

** All financial metrics are plotted at annual growth rates in the graphs above. Absolute values are found in the tables below.*

| Year | Total realised pay [BA] [MoM] ($) | Total realised pay (median) [Country] ($) | EPS [BA] ($) | ROA [BA] | ROE [BA] | ROIC [BA] | EPS (median) [Country] ($) | ROA (median) [Country] | ROE (median) [Country] | ROIC (median) [Country] |
|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 26.260.102 | 20.327.691 | 13,85 | 6,2% | 653,1% | 53,4% | 3,52 | 6,1% | 18,7% | 9,7% |
| 2018 | 31.334.957 | 25.330.434 | 17,85 | 6,4% | 985,4% | 54,7% | 4,28 | 6,4% | 18,2% | 10,7% |
| 2019 | 41.540.552 | 30.549.202 | -2,47 | -1% | | -7,6% | 4,90 | 5,1% | 25,2% | 11,6% |

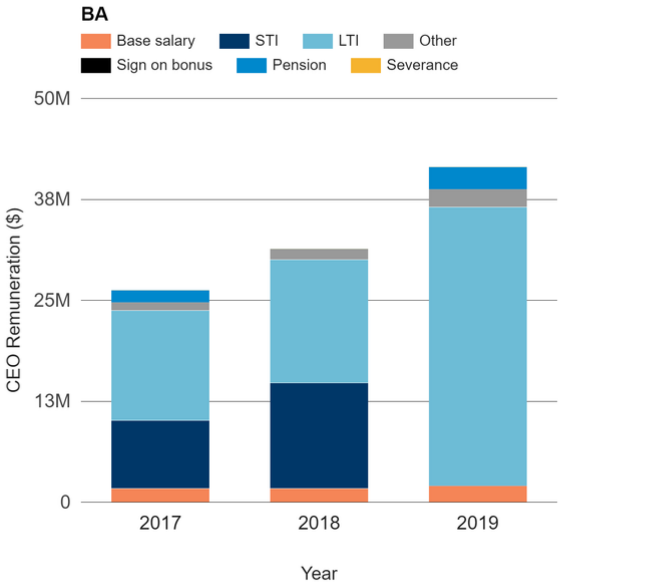
**List of companies**

| | |
|---|---|
| Country peer group | Bank of America Corporation (BAC), Cisco Systems, Inc. (CSCO), Citigroup Inc. (C), Comcast Corporation (CMCS.A), Intel Corporation (INTC), International Business Machines Corporation (IBM), Lockheed Martin Corporation (LMT), Merck & Co., Inc. (MRK), Oracle Corporation (ORCL), Pepsico, Inc. (PEP), Pfizer Inc. (PFE), The Procter & Gamble Company (PG), The Walt Disney Company (DIS), United Technologies Corporation (UTX), Wells Fargo & Company (WFC) |

| Year | Total realised pay [BA] [MoM] ($) | Total realised pay (median) [Industry] ($) | EPS [BA] ($) | ROA [BA] | ROE [BA] | ROIC [BA] | EPS (median) [Industry] ($) | ROA (median) [Industry] | ROE (median) [Industry] | ROIC (median) [Industry] |
|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 26.260.102 | 14.554.685 | 13,85 | 6,2% | 653,1% | 53,4% | 5,70 | 7% | 19% | 10,5% |
| 2018 | 31.334.957 | 14.014.426 | 17,85 | 6,4% | 985,4% | 54,7% | 7,01 | 7,4% | 22,5% | 11% |
| 2019 | 41.540.552 | 19.951.170 | -2,47 | -1% | | -7,6% | 10,02 | 7,4% | 20,5% | 10,9% |

**List of companies**

| | |
|---|---|
| Industry peer group | Arconic Inc. (ARNC), Curtiss-Wright Corporation (CW), General Dynamics Corporation (GD), HEICO Corporation (HEI), Hexcel Corporation (HXL), Huntington Ingalls Industries, Inc. (HII), L3Harris Technologies, Inc. (LHX), Lockheed Martin Corporation (LMT), Northrop Grumman Corporation (NOC), Raytheon Company (RTN), Spirit AeroSystems Holdings, Inc. (SPR), Teledyne Technologies Incorporated (TDY), Textron Inc. (TXT), TransDigm Group Incorporated (TDG), United Technologies Corporation (UTX) |




Source: CGLytics

| Year | Total realised pay ($) | Base salary ($) | STI ($) | LTI ($) | Other ($) | Sign on bonus ($) | Pension ($) | Severance ($) |
|---|---|---|---|---|---|---|---|---|
| 2017 | 26.260.102 | 1.690.769 | 8.450.270 | 13.584.735 | 985.191 | 0 | 1.549.137 | 0 |
| 2018 | 31.334.957 | 1.700.000 | 13.076.350 | 15.273.686 | 1.284.921 | 0 | 0 | 0 |
| 2019 | 41.540.552 | 2.013.846 | 0 | 34.536.457 | 2.200.094 | 0 | 2.790.155 | 0 |

For further information on the peers and methodology, or to submit feedback, please see our FAQs.

Disclaimer. The Compensation Analysis performed is based on Glass Lewis' methodology using CGLytic's proprietary platform. The intellectual property rights to the platform are vested exclusively in CGLytics, the brand under which Diligent Corporation operates and provides services. Compensation figures are standardized and calculated by CGLytics based on information disclosed by the Company and its peers in their disclosures and proxy materials. Equity awards are normalized using the grant date share price or when not disclosed by the Company using the year end share price. Financial data deployed within the CGLytics platform is normalized and based on information provided by third parties. CGLytics is a specialist provider for governance research and data analytics. It provides real time data and powerful analytical tools, for independent analysis of corporate governance practices of leading listed companies across the globe, in a single convenient solution. CGLytics provides a comprehensive solution for analyzing company's governance risks, compensation practices, board effectiveness and associated corporate governance decision-making. CGLytics provides greater transparency for informed decision-making, effective engagement and does not provide any type of advice or recommendation whatsoever. Diligent Corporation and/or its affiliates and suppliers do not make any representation or warranty, express or implied, of any nature, and do not accept any responsibility or liability of any kind, including with respect to the accuracy, completeness or suitability for any purpose of the information contained herein arising from the use of the CGLytics platform in connection with this Proxy Paper in any manner whatsoever.

## 737-MAX AFTERMATH

### BACKGROUND

On October 29, 2018, Lion Air Flight 610, fatally crashed in to the Java Sea 13 minutes after take off from Soekarno–Hatta International Airport in Jakarta, Indonesia, killed all 189 passengers and crew. The aircraft used was the 737 MAX 8 which the Company delivered to Lion Air in August 2018. On March 10, 2019, another 737 MAX 8 aircraft was involved in a fatal accident. The Ethiopian Airlines Flight 302 departing from Addis Ababa bore many similarities to the Lion Air crash; the aircraft was new and the incident happened within minutes of takeoff. The second accident of the same aircraft in less than a year prompted a worldwide grounding of the planes.

### INVESTIGATIONS

Aviation regulators conducted investigations in to the causes of these accidents in the following months. On October 24, 2019, the National Komite Nasional Keselamatan Transportas ("KNKT"), or Indonesia's National Transportation Safety Committee, completed its investigation of the crash and released its final report. The report concluded that the accident was due to the Company's "flawed design and development of MCAS" and the flight's pilot and maintenance crew made reasonable attempts to detect, diagnose, and correct an unknowable defect (a reference to the MCAS system). In March 2020, The Aircraft Accident Investigation Bureau of Ethiopia ("AIB") released its interim report echoing similar conclusions as the KNKT and that malfunctions and insufficient training on MCAS were the cause of the accidents.

### US CONGRESSIONAL HEARINGS

In October 2019, then-CEO Dennis Muilenberg testified before the US Congress in a two-day hearing entitled "The Boeing 737-MAX: Examining the Design, Development and Marketing of the Aircraft". In the hearing, evidence was presented that:

- In 2015, an engineer raised the question the design vulnerabilities of single AoA input (p. 23)
- In June 2018, the Company was aware that a slow pilot reaction time to override the MCAS system would be "catastrophic" (p. 22)
- In June 2018, An employee raised concern to the CEO about an exhausted workforce and the production of planes; Mr. Muilenberg stated that production did not slow down after that communication ( p. 51).
- The Company was aware of these design vulnerabilities following the Ethiopian Air accident but did not recommend grounding of the planes until the FAA issued the directive. The Company agrees with the decision to ground the plane. (p. 278)

### RETURN TO SERVICE

***Timeline of Company's Press Releases Relating to Return to Service***

| DATE | SUMMATION |
|---|---|
| May 16, 2019 | Completed development of updated software for the 737 MAX along with simulator testing<br>Provided additional information to FAA on how pilots interact with the airplane controls and displays in different flight scenarios |
| June 26, 2019 | Responded to a FAA request that identified an additional requirement. Company continues to work on required software |
| July 18, 2019 | The Company assumed regulatory approval of return to service in the US and other jurisdictions to begin in early fourth quarter of 2019. Assumption reflects the best estimate at the time |
| November 11, 2019 | The Company must reach five milestones in order to return the 737-MAX to service. It has already completed first milestone and the following still need to be met:<br>1. FAA eCab Simulator Certification Session (completed)<br>2. FAA Line Pilots Crew Workload Evaluation<br>3. FAA Certification Flight Test<br>4. Boeing Final Submittal to the FAA<br>5. Joint Operational Evaluation Board (JOEB) Simulator Training Evaluation<br>The Company stated that based on this schedule it is possible that the resumption of this aircraft deliveries could begin in December, after certification, when the FAA issues an Airworthiness Directive. |
| January 7,2020 | The Company now recommends pilots receive simulator training in addition to computer based training. |
| January 21, 2020 | The Company estimates that the ungrounding of the 737 MAX will begin during mid-2020 |

### *FAA Certification Process Under Scrutiny*

The Company will be unable to deliver the 737 Max until it receives clearance from the Federal Aviation Administration ("FAA"). The current process in which the FAA will certify the plan came under review in the past year.

Following the grounding, the FAA established the Joint Authorities Technical Review ("JATR") which was formed to evaluate the aircraft's automated flight control system, including its design and pilots' interaction with the system, to determine its compliance with all applicable regulations and to identify future enhancements that might be needed. JATR is composed of civil aviation authorities from around the world and its main purpose was to evaluate the certification process of 737-MAX. JATR completed its report in October 2019 with several recommendations to improve the FAA's process.

In September 2019, the National Transportation Safety Board released a Safety Recommendation Report which urges the FAA to reassess pilot response time to alerts during a crisis.

On January 16, 2020, the US Department of Transportation's Aircraft Certification Committee released its findings and recommendations to enhance aviation safety regarding FAA's certification and the 737-MAX 8's certification. The committee found that while the certification was effective, reforms should be taken in the case of FAA Certification and there is room for improvement in multiple areas, as further discussed in its report.

## COMPANY'S RESPONSES AND CHANGES

### *Focus on Product Safety and Services*

Following a five-month independent review of the Company's policies and processes by the Committee on Airplane Policies and Processes, the committee recommended (and the Company further established) the following:

- Create a Product and Services Safety organization;
- Align the Engineering function;
- Establish a Design Requirements Program;
- Enhance the Continued Operation Safety Program;
- Re-examine flight deck design and operation; and
- Expand the role and reach of the Safety Promotion Center.

Further discussion of the establishment of Product and Services Safety organization, Design Requirements Program, enhancements to the Continued Operation Safety Program, and expansion of the Safety Promotion Center can be found in this press release.

In August 2019, the Company formally created the Aerospace Safety Committee. Its primary responsibility is to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of the company's aerospace products and services.

### *Production and Revenue Loss*

In December 2019, the Company announced that it was suspending the production plant of the 737-MAX. The Company disclosed in its annual report that its commercial airplane revenues decreased in 2019 by $25,244 million, which was mainly driven by lower 737 Max deliveries. Furthermore, the Company had an additional revenue reduction of $8,259 million recorded for estimated potential concessions and other considerations to customers for disruptions and associated delivery delays related to the 737 MAX grounding. As of April 1, 2020, the Company has stated that the grounding has not resulted in significant order cancellations.

### *Changes in Leadership*

Following the recommendation of the board, on September 30, 2019, the Company announced that it would be separating the role of chair and CEO and that this was to allow then-CEO Dennis Muilenberg to focus the Company's efforts on product and services safety. In October 2019, the Company also announced that Kevin G. McAllister would no longer be the CEO of Boeing Commercial Airplanes. In December 2019, the Company named David Calhoun to replace Dennis Muilenberg as president and CEO. Lawrence Kellner now serves as chair of the board.

### *Share Repurchase Program*

On March 23, 2020 the board terminated its share repurchase program. In fiscal year 2018, the Company approved a share repurchase plan for up to $20 billion in common stock. No repurchases were made in fiscal year 2019.

# 1.00: ELECTION OF DIRECTORS

**SPLIT**

**PROPOSAL REQUEST:** Election of twelve directors

**ELECTION METHOD:** Majority w/ Resignation Policy

**RECOMMENDATIONS & CONCERNS:**

**AGAINST:** **L. Kellner** (Other unique issue)

**FOR:** **R. Bradway** ; **D. Calhoun** ; **A. Collins, Jr.** ; **E. Giambastiani, Jr.** ; **L. Good** ; **A. Johri** ; **C. Kennedy** ; **S. Mollenkopf** ; **J. Richardson** ; **S. Schwab** ; **R. Williams**

## BOARD OF DIRECTORS

| UP | NAME | AGE | GENDER | GLASS LEWIS CLASSIFICATION | COMPANY CLASSIFICATION | OWNERSHIP** | COMMITTEES AUDIT | COMP | GOV | NOM | E&S^ | TERM START | TERM END | YEARS ON BOARD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ✔ | David L. Calhoun* ·*CEO* | 62 | M | Insider [1] | Not Independent | Yes | | | | | | 2009 | 2020 | 11 |
| ✔ | Robert A. Bradway* | 57 | M | Independent | Independent | Yes | ✔X | | | | | 2016 | 2020 | 4 |
| ✔ | Arthur D. Collins, Jr. | 72 | M | Independent | Independent | Yes | | C | ✔ | ✔ | | 2007 | 2020 | 13 |
| ✔ | Edmund P. Giambastiani, Jr. | 71 | M | Independent | Independent | Yes | ✔ | | | | | 2009 | 2020 | 11 |
| ✔ | Lynn J. Good* | 60 | F | Independent | Independent | Yes | CX | | | | | 2015 | 2020 | 5 |
| ✔ | Akhil Johri | 58 | M | Independent | Independent | Yes | | | | | | 2020 | 2020 | 0 |
| ✔ | Lawrence W. Kellner ·*Chair* | 61 | M | Independent [2] | Independent | Yes | ✔X | | | | | 2011 | 2020 | 9 |
| ✔ | Caroline B. Kennedy | 62 | F | Independent | Independent | Yes | ✔ | | | | | 2017 | 2020 | 3 |
| ✔ | Steven M. Mollenkopf* | 51 | M | Independent | Independent | No | | | | | | 2020 | 2020 | 0 |
| ✔ | John M. Richardson | 59 | M | Independent | Independent | Yes | | | | | | 2019 | 2020 | 1 |
| ✔ | Susan C. Schwab | 64 | F | Independent | Independent | Yes | | ✔ | ✔ | ✔ | | 2010 | 2020 | 10 |
| ✔ | Ronald A. Williams | 70 | M | Independent | Independent | Yes | ✔X | | | | | 2010 | 2020 | 10 |

C = Chair, * = Public Company Executive, X = Audit Financial Expert, = Withhold or Against Recommendation

1. President and CEO.
2. Chair.

***Percentages displayed for ownership above 5%, when available*
*^Indicates board oversight responsibility for environmental and social issues. If this column is empty it indicates that the Company has not provided explicit disclosure concerning the board's role in overseeing environmental and social issues.*

| NAME | ATTENDED AT LEAST 75% OF MEETINGS | PUBLIC COMPANY EXECUTIVE | ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS |
|---|---|---|---|
| David L. Calhoun | Yes | Yes | (1) Caterpillar Inc. |
| Robert A. Bradway | Yes | Yes | (1) Amgen Inc. C E |
| Arthur D. Collins, Jr. | Yes | No | (1) U.S. Bancorp |
| Edmund P. Giambastiani, Jr. | Yes | No | (2) THL Credit, Inc.; Invesco Funds |
| Lynn J. Good | Yes | Yes | (1) Duke Energy Corporation C E |
| Akhil Johri | N/A | No | (1) Cardinal Health, Inc. |
| Lawrence W. Kellner | Yes | No | (1) Marriott International, Inc. |
| Caroline B. Kennedy | Yes | No | None |
| Steven M. Mollenkopf | N/A | Yes | (1) QUALCOMM Incorporated E |
| John M. Richardson | Yes | No | (1) Exelon Corporation |
| Susan C. Schwab | Yes | No | (3) FedEx Corporation; Caterpillar Inc.; Marriott International, Inc. |
| Ronald A. Williams | Yes | No | (2) American Express Company; Johnson & Johnson |

C = Chair, E = Executive

## MARKET PRACTICE

| INDEPENDENCE AND COMPOSITION | BA* | REQUIREMENT | BEST PRACTICE |
|---|---|---|---|
| Independent Chair | Yes | No[1] | Yes[5] |
| Board Independence | 92% | Majority[2] | 66.7%[5] |
| Audit Committee Independence | 100% ; Independent Chair | 100%[3] | 100%[5] |
| Compensation Committee Independence | 100% ; Independent Chair | 100%[2] | 100%[5] |
| Nominating Committee Independence | 100% | 100%[2] | 100%[5] |
| Percentage of women on board | 25% | N/A[4] | N/A[4] |
| Directors' biographies | Proxy Statement | | |

** Based on Glass Lewis Classification*

1. *NYSE Listed Company Manual*
2. *Independence as defined by NYSE listing rules*
3. *Securities Exchange Act Rule 10A-3 and NYSE listing rules*
4. *No current marketplace listing requirement*
5. *CII*

Glass Lewis believes that boards should: (i) be at least two-thirds independent; (ii) have standing audit, compensation and nomination committees comprised solely of independent directors; and (iii) designate an independent chair, or failing that, a lead independent director.

## GLASS LEWIS ANALYSIS

We believe it is important for shareholders to be mindful of the following:

### CHANGE IN EXECUTIVE LEADERSHIP

On December 23, 2019, the Company issued a press release announcing the appointment of David L. Calhoun to the position of president and CEO of the Company, effective January 13, 2020. Mr. Calhoun previously served as the independent Lead Director of the board before being named chair of the board in October 2019. Dennis A. Muilenburg, the Company's previous CEO, resigned as president, CEO and director of the Company. In connection with this transition, Lawrence W. Kellner, who previously served as chair of the audit committee, was named non-executive chair of the board.

## DIRECTOR HALEY'S RESIGNATION

On March 16, 2020 the Company announced that Nikki Haley has submitted a letter of resignation from the board effective immediately. The Company discloses the following as her rationale for leaving:

"A variety of approaches are currently under discussion among policymakers in the administration and Congress, as well as the private sector, to address the near-term liquidity needs of the aerospace, travel, and other sectors affected by the current COVID-19 crisis. The Company is participating in those discussions and has informed the Board about the options currently being considered. Ambassador Haley informed the Company that, as a matter of philosophical principle, she does not believe that the Company should seek support from the Federal Government, and therefore decided to resign from the Board."

## BOARD CHANGES

We note the following board changes, which have occurred since the publication of our last Proxy Paper:

| DIRECTOR | ROLE | BOARD NOTES | COMMITTEE NOTES |
|---|---|---|---|
| John M. Richardson | Independent director | Appointed October 25, 2019 | Joined:<br>• Aerospace Safety |
| Dennis A. Muilenburg, | President and CEO | Resigned from the board and the Company on December 22, 2019 | |
| Edward M. Liddy | Independent director | Not standing for re-election at annual meeting due to mandatory retirement age | Leaving:<br>• Compensation<br>• Governance, Organization and Nominating (chair) |
| Mike S. Zafirovski | Independent director | Decided to not stand for re-election at this year's annual meeting. | Leaving:<br>• Compensation<br>• Governance, Organization and Nominating |
| Akhil Johri | Independent director | Nominated to stand for election at annual meeting | |
| Steven M. Mollenkopf | Independent director | Nominated to stand for election at annual meeting | |
| Nikki Haley | Independent Director | Resigned from the board on March 16, 2020 | |

# RECOMMENDATIONS

We recommend that shareholders oppose the election of the following nominee based on the following:

## RISK MANAGEMENT CONCERNS STEMMING FROM 737 MAX 8

Director **KELLNER** served as chair of the audit committee from 2018 until he was named chair of the board in October 2019; and he has served as a member of the audit committee since at least 2012. According to the Company's audit committee charter, this committee is responsible for, among other things, discussing with management the Company's policies, practices and guidelines regarding risk assessment and management, and reviewing the Company's compliance with its risk management processes.

In our Proxy Paper for the 2019 annual meeting, we recommended that shareholders oppose Mr. Kellner's reelection to signal the need for rotation and renewal of the board's risk management process. While Mr. Kellner is no longer chair of the audit committee, he remains a member of the committee, and has in fact been elevated to the role of board chair. We continue to believe that shareholders should oppose his reelection to signal dissatisfaction with the board's governance and handling of the 737 MAX controversy.

In making our recommendation, we thoroughly considered the role of the board in times of crisis and the responsibilities of each committee to anticipate and manage risk. We recognize that the Company is cooperating and acting on recommendations made by civil aviation authorities, regulatory bodies, and the board. However, we believe that the investigations and hearings from the past year have indicated that the 737-MAX 's design flaws, controversial accidents, and ultimate grounding, were due to poor oversight by numerous parties, not the least of which includes the board in its risk assessment. The ensuing controversy caused substantial material loss and reputational damage to the Company.

As we detailed on the Company Updates page of this report, the Company has undertaken changes to its leadership, priorities, and organization; executives have resigned, new internal organizations have been put in place, and the

Company has expressed a renewed commitment to engineering and safety. However, other than the establishment of the Aersopace Safety Committee, the board membership remains largely intact, with many of the board members who served during the development of the 737-MAX continuing on the board; and Mr. Kellner's leadership role has been expanded to non-executive chair of the board. Additionally, while we note the appointment of three new independent directors in the past year, we also note that each of them have additional public company board responsibilities; notably, one of the new directors is also the current CEO and board member of large cap public company. All but one of the board members have at least one additional public company board commitment, and while none of the directors technically exceed our thresholds for outside commitments, this nonetheless contributes to our view that the Boeing board is very busy and potentially devoting insufficient time to the issues at the Company.

The board members, in addition to Company executives, had a significant role in the decisions regarding the plane, its features, and what was communicated to the public about its safety. We believe the audit committee failed to mitigate the risk posed by management's decisions and should be held accountable for its oversight. As such, we believe shareholders would be best served with rotation at the board level of the Company's risk management function.

We recommend that shareholders vote:

**AGAINST:** Kellner

**FOR:** Bradway; Calhoun; Collins, Jr.; Giambastiani, Jr.; Good; Johri; Kennedy; Mollenkopf; Richardson; Schwab; Williams

The Company discloses the following biographical information for directors Akhil Johri, Steven M. Mollenkopf and John M. Richardson, new nominees to the board:

**Akhil Johri** brings to the board extensive aerospace industry expertise from his more than 30 years at United Technologies, as well as critical skills developed while serving as Chief Financial Officer at multiple Fortune 500 companies. These skills will enable Mr. Johri to provide critical insights to the Board in areas as diverse as financial strategy, strategic operations, the dynamics of managing a complex, global supply chain, articulating corporate strategy to investors and other stakeholders, and mitigating risks associated with the development of new products and services at a large industrial manufacturer. Mr. Johri also brings to the Board unique insights relating to his senior leadership experience at a major supplier to aerospace companies like Boeing. In addition, in his capacity as an independent director and audit committee member at Cardinal Health, Mr. Johri will bring to the Board experience in risk oversight and corporate governance of a large company in a highly regulated industry. Mr. Johri is a graduate of the Indian Institute of Management, Ahmedabad, and is a Chartered Accountant.

**Steven M. Mollenkopf** experience as the Chief Executive Officer and Chief Operating Officer of Qualcomm, an engineering- driven, high-technology manufacturing company, will enable him to bring critical insights to the Board in such areas of engineering leadership, risk management, leading a complex business with a global reach, and oversight of large- scale efforts to develop and test new technologies. A long-time engineer who started with Qualcomm over 25 years ago, Mr. Mollenkopf also possesses expertise and direct leadership experience in precision engineering, project management, manufacturing, quality control, and designing testing regimes for complex systems. Mr. Mollenkopf is a published IEEE (Institute of Electrical and Electronics Engineers) author and an inventor on 38 patents in areas such as power estimation and measurement, multi-standard transmitters, and wireless communication transceiver technology. He holds a B.S. degree in Electrical Engineering from Virginia Tech and an M.S. degree in Electrical Engineering from the University of Michigan.

**John M. Richardson** brings deep expertise in safety, regulation, and oversight of complex, high-risk systems, as well as extensive crisis management and national security experience. During his 37 years of service in the U.S. Navy, Admiral Richardson gained valuable operational and national security experience, safely managing over 100 nuclear power plants operating on nuclear-powered warships, serving in four nuclear submarines, including commanding the submarine USS Honolulu, and serving as naval aide to the President of the United States. Admiral Richardson brings extensive experience managing operations on a global basis. As Chief of Naval Operations, he was responsible for the management of a $160 billion budget covering 600,000 sailors and civilians, over 70 installations, 290 warships and over 2,000 aircraft worldwide. As a result of his safety and operational knowledge, the Board elected Admiral Richardson to the Aerospace Safety Committee, as well as Chair of the Special Programs Committee. He earned a bachelor of science degree in physics from the U.S. Naval Academy, a master’s degree in electrical engineering from the Massachusetts Institute of Technology and Woods Hole Oceanographic Institution and a master’s degree in National Security Strategy from the National War College.

# 2.00: ADVISORY VOTE ON EXECUTIVE COMPENSATION

**AGAINST**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Approval of Executive Pay Package | **PAY FOR PERFORMANCE GRADES:** | **FY 2019** N/A<br>**FY 2018** C<br>**FY 2017** B |
| **PRIOR YEAR VOTE RESULT (FOR):** | 92% | **RECOMMENDATION:** | AGAINST |
| **STRUCTURE:** | Fair | | |
| **DISCLOSURE:** | Fair | | |

## EXECUTIVE SUMMARY

### SUMMARY ANALYSIS

We consider the excessive lump sum payment to Mr. McAllister as inappropriate. In our view, the payment was essentially a "cashing out" of a $14.7 million RSU grant from 2016 - the time-based vesting terms of which the executive failed to meet given his separation in 2019. We do not believe shareholders should support the Company's pay practices for the year under review in light of this issue.

### COMPENSATION HIGHLIGHTS

- STI: Performance-based; most recent awards paid out at 0%
- LTI: Performance-based and time-based; most recently completed performance cycle paid out at above target for the TSR-based award and did not payout for the performance award that vest based on financial goals.
- One-time: Retention award granted during the past fiscal year
  - Payment in lieu of prior make-whole award occurred in the past fiscal year.

### MATERIAL CHANGES

- CEO Transition-Related Compensation:
  - Mr. Muilenburg separated from the Company in December 22, 2019. He was not entitled to any severance or separation payments in connection with the separation. Mr. Muilenburg was retirement-eligible under the pre-existing terms of the incentive plans; so, previously granted LTIP awards vested on a pro-rated basis. Certain additional stock unit awards earned prior to his service as CEO fully vested.
  - Mr. Smith assumed the interim CEO position. He did not receive any additional compensation with respect to this role.
  - David Calhoun was appointed CEO on January 13, 2020. HIs compensation for 2020 included a guaranteed minimum STIP.
    - In March 20, 2020, the Company announced that Mr. Calhoun and the chair of the board will forego all pay until the end of the year as part of its response to the impacts of the COVID-19 crisis.
- The clawback policy was enhanced to include situations in violations of policy, law or regulation that has compromised the safety of products or services and has a material adverse effect on the Company.
- In 2020, the Company will add business unit performance for the vesting of its performance-based incentives.

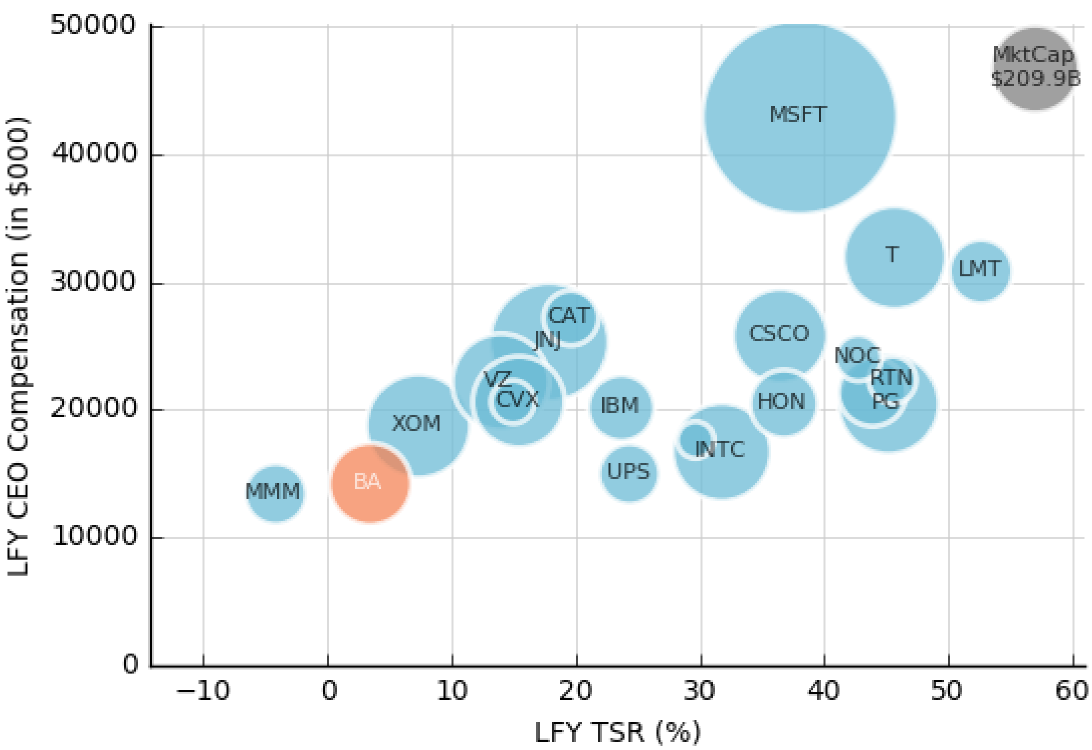
## SUMMARY COMPENSATION TABLE

| NAMED EXECUTIVE OFFICERS | BASE SALARY | BONUS & NEIP | EQUITY AWARDS | TOTAL COMP |
|---|---|---|---|---|
| Dennis A. Muilenburg *Former President and Chief Executive Officer* | $2,013,846 | - | $7,246,100 | $14,250,195 |
| Gregory D. Smith *Chief Financial Officer and Executive Vice President, Enterprise Performance and Strategy; Former Interim President and Chief Executive Officer* | $1,128,846 | - | $2,430,699 | $4,515,803 |
| Stanley A. Deal *Executive Vice President, President and Chief Executive Officer, Commercial Airplanes* | $934,423 | - | $1,732,642 | $4,205,306 |
| Timothy J. Keating *Executive Vice President, Government Operations* | $695,192 | - | $3,016,610 | $4,370,384 |
| J. Michael Luttig *Former Executive Vice President, Counselor and Advisor to the Board of Directors* | $984,385 | - | $1,930,360 | $7,304,919 |
| Kevin G. McAllister *Former Executive Vice President, President and Chief Executive Officer, Commercial Airplanes* | $1,230,007 | - | $2,045,063 | $18,429,318 |

## PEER GROUP REVIEW [1 2 3 4]

The Company benchmarks NEO compensation to a peer group consisting of 20 companies. Total NEO compensation is targeted at the 50th percentile of the peer group.

| | MARKET CAP | REVENUE | CEO COMP | 1-YEAR TSR | 3-YEAR TSR | 5-YEAR TSR |
|---|---|---|---|---|---|---|
| **75th PERCENTILE OF PEER GROUP** | $268.2B | $128.9B | $25.6M | 43.3% | 19.1% | 16.6% |
| **MEDIAN OF PEER GROUP** | $127.2B | $73.0B | $21.1M | 30.7% | 11.8% | 10.0% |
| **25th PERCENTILE OF PEER GROUP** | $91.0B | $45.6B | $19.5M | 16.5% | 2.7% | 5.0% |
| **COMPANY** | $183.3B (55th %ile) | $76.6B (56th %ile) | $14.3M (4th %ile) | 3.3% (5th %ile) | 30.9% (93rd %ile) | 23.3% (93rd %ile) |




1 Market capitalization figures are as of fiscal year end dates. *Source: Capital IQ*

2 Annual revenue figures are as of fiscal year end dates. *Source: Capital IQ*

3 Annualized TSR figures are as of fiscal year end dates. *Source: Capital IQ*

4 Annual CEO compensation data based on the most recent proxy statement for each company.

# EXECUTIVE COMPENSATION STRUCTURE - SYNOPSIS

## FIXED

Base salaries did not increase significantly during the past fiscal year.

## SHORT-TERM INCENTIVES

| STI PLAN | |
|---|---|
| **AWARDS GRANTED (PAST FY)** | *Cash* |
| **TARGET PAYOUTS** | *$3,060,000 for the CEO and up to $1,298,173 for the other NEOs* |
| **MAXIMUM PAYOUTS** | *$6,120,000 for the CEO and up to $2,596,346 for the other NEOs* |
| **ACTUAL PAYOUTS** | *No payouts* |
| Performance is measured over one year. | |

| METRICS | | FREE CASH FLOW | REVENUE | CORE EPS | INDIVIDUAL PERFORMANCE |
|---|---|---|---|---|---|
| | | Absolute | Absolute | Absolute | Absolute |
| | Weighting | 50% | 25% | 25% | Modifier (0% to 200%) |
| | Threshold Performance | N/D | N/D | N/D | N/A |
| | Target Performance | $15.0B | $111.0B | $20.10 | N/A |
| | Maximum Performance | N/D | N/D | N/D | N/A |
| | Actual Performance | -$4.3B | $76.6B | -$3.47 | N/A |

## LONG-TERM INCENTIVES

| LTI PLAN | |
|---|---|
| **AWARDS GRANTED (PAST FY)** | *Performance awards, PSUs and RSUs* |
| **TARGET PAYOUTS** | *PSUs: 7,774 shares for the CEO and up to 2,608 shares for the other NEOs*<br>*Performance Awards: $7,246,300 for the CEO and up to $2,431,000 for the other NEOs* |
| **MAXIMUM PAYOUTS** | *PSUs: 15,548 shares for the CEO and up to 5,216 shares for the other NEOs*<br>*Performance Awards: $14,492,600 for the CEO and up to $4,862,000 for the other NEOs* |
| **TIME-VESTING PAYOUTS** | *RSUs: 8,461 shares for the CEO and up to 2,838 shares for the other NEOs* |
| PSU performance is measured over three years. | |
| RSU awards vest over three years. | |
| Performance for performance awards is measured over three years. Earned awards may be paid in cash or stock. | |
| TSR is measured relative to the Company peer group. | |
| Messrs. Muilenburg and Luttig forfeited a portion of their 2019 LTIP in connection with their separations of employment. Mr. McAllister forfeited all of his 2019 LTIP upon his separation. | |

| METRICS FOR PSUS | | TSR |
|---|---|---|
| | | Relative |
| | Weighting | 100% |
| | Threshold Performance | 21st %ile |
| | Target Performance | 51st %ile to 60th %ile |
| | Maximum Performance | 91st %ile |

| | | FREE CASH FLOW | REVENUE | CORE EPS |
|---|---|---|---|---|
| **METRICS FOR PERFORMANCE AWARDS** | | Absolute | Absolute | Absolute |
| | Weighting | 50% | 25% | 25% |
| | Threshold Performance | N/D | N/D | N/D |
| | Target Performance | N/D | N/D | N/D |
| | Maximum Performance | N/D | N/D | N/D |

## ONE-TIME PAYMENTS

| NEO | TYPE OF PAYMENT | AWARD | PERF. PERIOD | VESTING PERIOD | VALUE |
|---|---|---|---|---|---|
| Timothy J. Keating | Retention | RSUs | N/A | 3 years | $1,712,880 |
| Kevin G. McAllister | Severance* | Cash | N/A | N/A | $14,750,000 |

*Payment in cash at the time of his separation of an amount approximately equal to pension benefits he forfeited with a previous employer.

## RISK-MITIGATING POLICIES

| | |
|---|---|
| **CLAWBACK POLICY** | *Yes - Expanded* |
| **ANTI-HEDGING POLICY** | *Yes* |
| **STOCK OWNERSHIP GUIDELINES** | *Yes - all NEOs* |

## SEPARATION & CIC BENEFITS

| | |
|---|---|
| **HIGHEST SEVERANCE ENTITLEMENT** | *1x base salary and bonus* |
| **CIC EQUITY TREATMENT** | *Double-trigger acceleration* |
| **EXCISE TAX GROSS-UPS** | *No* |

## OTHER FEATURES

| | |
|---|---|
| **LFY CEO TO MEDIAN EMPLOYEE PAY RATIO *** | *105:1* |
| **E&S METRICS** | *No* |
| **BENCHMARK FOR CEO PAY** | *50th percentile* |

## GLASS LEWIS ANALYSIS

This proposal seeks shareholder approval of a non-binding, advisory vote on the Company's executive compensation. Glass Lewis believes firms should fully disclose and explain all aspects of their executives' compensation in such a way that shareholders can comprehend and analyze the company's policies and procedures. In completing our assessment, we consider, among other factors, the appropriateness of performance targets and metrics, how such goals and metrics are used to improve Company performance, the peer group against which the Company believes it is competing, whether incentive schemes encourage prudent risk management and the board's adherence to market best practices. Furthermore, we also emphasize and evaluate the extent to which the Company links executive pay with performance.

### PROGRAM FEATURES [1]

| POSITIVE | NEGATIVE |
|---|---|
| • LTIP performance-based<br>• STIP performance-based<br>• STI-LTI payout balance<br>• No single-trigger CIC benefits<br>• Anti-hedging policy<br>• Enhanced clawback policy for NEOs<br>• Executive stock ownership guidelines for NEOs | • Insufficient disclosure of LTIP performance goals<br>• Substantial severance payments<br>• Insufficient disclosure of STIP performance goals<br>• Similar metrics used under STIP and LTIP |

1 Both positive and negative compensation features are ranked according to Glass Lewis' view of their importance or severity

# AREAS OF FOCUS

## VARIABLE COMPENSATION

***Overlapping Performance Conditions***
*Policy Perspective:* Glass Lewis believes that when more than 30% of the short-term and long-term incentive plans are based on similar metrics, the plan runs the risk of doubly rewarding or penalizing executives for similar achievements. Such a structure may also fail to fully reflect the overall health of the company.

## DISCLOSURE

***Performance Goals Not Disclosed***
*Policy Perspective:* The Company has not clearly disclosed its goals under the STI plan and the vesting conditions for performance-based awards granted under the LTI plan. Descriptions of performance goals enable shareholders to understand and evaluate the Company's procedures for quantifying performance and translating it into payouts for executives.

## ONE-TIME PAYMENTS

***One-Off Awards***
*Policy Perspective:* Shareholders should generally be wary of awards granted outside of the standard incentive schemes, as such awards have the potential to undermine the integrity of a company's regular incentive plans, the link between pay and performance or both.

***Substantial Severance Payment***
*Policy Perspective:* The Company provided a potentially excessive payment to an outgoing executive in the past fiscal year. We believe shareholders should question the nature of this payment and if it is the best use of the Company's capital.

Analyst Comment: In particular, Mr. McAllister, the former CEO of Commercial Airplanes, was terminated on December 31, 2019 and received a lump sum cash payment of $14.75 million from the Company at separation.

The Company stated that amount of the lump sum payment was the approximate value of a pension benefit that Mr. McAllister forfeited when he left a former employer. (He joined the Company in 2016 after 27 years with GE Aviation.) The cash amount he received at termination was 1,329% of his annualized base salary for 2019 and almost twice his 2018 total compensation reported on the Summary Compensation Table.

It is important to note that Mr. McAllister was given a 100,000 RSU make-whole award at the time of his 2016 hire with the grant date value of $14.7 million. This equity grant was, in fact, to compensate him for the pension benefit he left behind with GE Aviation. But the Company thought it necessary to apply vesting conditions to the award, and by joining the Company we assume that Mr. McAllister agreed to terms of the award. The award was scheduled to vest in between 2021 and 2025. For Glass Lewis, this long vesting period that was agreed to by the Company and Mr. McAllister was a key mitigator of concerns regarding the quantum of the grant as discussed in our 2017 Proxy Paper.

Clearly falling short of the earliest vesting time due to his termination, Mr. McAllister forfeited the RSU grant. But with a $14.75 million lump sum cash payment he received at separation, Mr. McAllister was, in our view, essentially cashed out of the grant date value of the equity grant and walked away with what we consider unearned compensation.

A rationale for the payout was not readily forthcoming, or at least, it was not sufficiently provided in the proxy statement. The incidents in 2019 that punished the market value and financial position of the Company and Mr. McAllister's role as the CEO of Commercial Airplanes during the 737-MAX rollout raise questions of accountability and diminishes, in our view, the number of acceptable reasons for paying Mr. McAllister unearned compensation. In the absence of a substantive discussion for the payout, shareholders should closely consider the appropriateness of the payout especially given its quantum and whether it aligns with the shareholder experience in 2019.

CEO TRANSITION-RELATED COMPENSATION

A summary of the 2019-specific, CEO transition-related compensation details may be found in the Material Changes section of the Executive Summary at the beginning of this analysis. Meanwhile, shareholders should be aware of the following regarding 2020-specific, CEO transition-related compensation developments.

***Guaranteed Minimum Bonus to Incoming CEO and Other CEO Compensation Details***
*Analyst Comment:* On January 13, 2020, David Calhoun was elected the Company's CEO. Mr. Calhoun's 2020 STIP opportunity will be 180% of base salary, on par with his predecessor's percent of base salary target. However, Mr. Calhoun will receive no less than his target amount for 2019. Except for nominal fixed payments such as base salaries, we believe the compensation of executives should be strictly based on the performance of a company. In this case, we believe the Company has done a disservice to shareholders by agreeing to grant these performance-insensitive bonuses, as such awards have the potential to undermine the integrity of a company's regular incentive plans, the link between pay and performance or both.

However, the concern appears to be moot as of March 20, 2020 when the Company announced that he and the board chair will forego all pay until the end of the year. What this means exactly at the end of the year remains to be determined. As such, we will revisit his compensation arrangements in 2021 upon the full disclosure of the 2020 pay program.

We will also examine Mr. Calhoun's equity grants more closely upon the full disclosure next year. However, shareholders should be aware that his onboarding compensation included a $10 million RSU grant that vests over three years which, like Mr. McAllister's 2016 RSU grant, was designed to compensation him for amounts forfeited upon his departure from his prior employer. Mr. Calhoun's onboarding compensation also included a $7 million PSU grant vesting over three years after seven goals are achieved.

## 2019 PAY FOR PERFORMANCE: N/A

Due to insufficient financial data, we have not generated a pay-for-performance analysis for the Company for fiscal 2019. The Company's financials reflected the impact from significant events in fiscal 2019. With certain financial data used for the pay-for-performance analysis turning negative, an insufficient number of metrics used for our analysis was available to generate a meaningful result.

# CONCLUSION

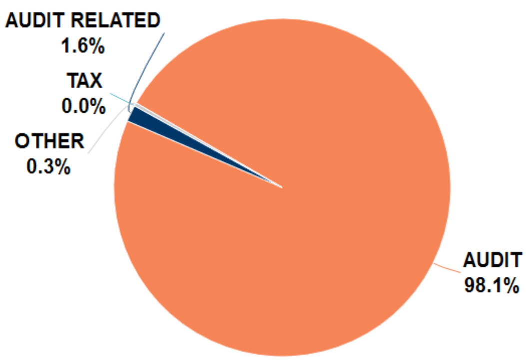
In light of our concerns with Mr. McAllister's receipt of a lump sum cash payment of $14.75 million, we do not support the Company's pay decisions for fiscal 2019. We will revisit our position next year as several developments in CEO pay transpired ahead of the 2020 annual meeting.

We recommend that shareholders vote **AGAINST** this proposal.

# 3.00: RATIFICATION OF AUDITOR

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | Ratification of Deloitte & Touche | **RECOMMENDATIONS & CONCERNS:** | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 96.1% | **FOR-** No material concerns | |
| **BINDING/ADVISORY:** | Advisory | | |
| **REQUIRED TO APPROVE:** | Majority of votes cast | | |
| **AUDITOR OPINION:** | Unqualified | | |




## AUDITOR FEES

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Audit Fees:** | $31,100,000 | $30,200,000 | $30,700,000 |
| **Audit-Related Fees:** | $500,000 | $300,000 | $100,000 |
| **Tax Fees:** | $ 0 | $100,000 | $100,000 |
| **All Other Fees:** | $100,000 | $100,000 | $100,000 |
| **Total Fees:** | $31,700,000 | $30,700,000 | $31,000,000 |
| **Auditor:** | Deloitte & Touche | Deloitte & Touche | Deloitte & Touche |

| | |
|---|---|
| **Years Serving Company:** | 86 |
| **Restatement in Past 12 Months:** | No |
| **Alternate Dispute Resolution:** | No |
| **Auditor Liability Caps:** | No |
| **Lead Audit Partner:** | Lawrence David Patrick |
| **Critical Audit Matter(s):** | 3<br>• Cost Estimates for Fixed-Price Development Contracts<br>• Program Accounting Estimates for New Programs<br>• Liabilities related to the 737 MAX Grounding |

## GLASS LEWIS ANALYSIS

The fees paid for non-audit-related services are reasonable and the Company discloses appropriate information about these services in its filings.

We recommend that shareholders vote **FOR** the ratification of the appointment of Deloitte & Touche as the Company's auditor for fiscal year 2020.

# 4.00: SHAREHOLDER PROPOSAL REGARDING DISCLOSURE OF BOARD QUALIFICATIONS

**AGAINST**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the Company adopt a policy to disclose specific qualifications, ideological perspectives, skills, and experience for board nominees | **SHAREHOLDER PROPONENT:** | Not disclosed |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | N/A | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**
**AGAINST -** Not in the best interests of shareholders

## GLASS LEWIS REASONING

- The Company has provided sufficient disclosure regarding its director qualifications and skills.

*Note: Glass Lewis recommends that shareholders carefully scrutinize proposals such as this that purport to seek more information about a company's environmental and social risk exposure but may, in fact, be intended to frustrate a company's actions in those areas.*

## PROPOSAL SUMMARY

**Text of Resolution:** *Resolved, that the shareholders of The Boeing Company (the "Company") request the Board adopt a policy to disclose to shareholders the following:*

*1. A description of the specific minimum qualifications that the Board's nominating committee believes must be met by a nominee to be on the board of directors; and*
*2. Each nominee's skills, ideological perspectives, and experience presented in a chart or matrix form.*

*The disclosure shall be presented to the shareholders through the annual proxy statement and the Company's website within six (6) months of the date of the annual meeting and updated on an annual basis.*

**Proponent's Perspective**

- Boards that incorporate diverse perspectives can think more critically and oversee corporate managers more effectively;
- Providing meaningful disclosure about potential board members allows shareholders to be better able to judge how well-suited individual board nominees are for the Company and whether their listed skills, experience, and attributes are appropriate in light of the Company's overall business strategy;
- The Company's compliance with Item 407(c)(2)(v) of SEC Regulation S-K requires it to identify the minimum skills, experience, and attributes that all board candidates are expected to possess;
- Ideological diversity contemplates differences in political/policy beliefs;
- True diversity comes from diversity of thought;
- There is ample evidence that the many companies operate in ideological hegemony that eschews conservative people, thoughts, and values, and this ideological echo chamber can result in groupthink that is the antithesis of diversity, which can be a major risk factor for shareholders;
- A diverse board is a good indicator of sound corporate governance and a well- functioning board; and
- Diversity in board composition is best achieved through highly qualified candidates with a wide range of skills, experience, beliefs, and board independence from management.

**Board's Perspective**

- The Company is committed to transparency with all of its stakeholders with respect to the skills and backgrounds of director nominees;
- Diversity is a core component of the Company's assessment of the skills and qualifications of potential director nominees, and its existing public disclosures regarding the skills and qualifications of director nominees are already comprehensive;
- The board is committed to seeking broad and diverse backgrounds, experiences, skills, and perspectives among its members;
- The Company's corporate governance principles set forth a comprehensive list of the skills and qualifications the Company seeks individually and collectively for the board and includes those attributes which are required of all directors, such as personal and professional integrity, honesty, and adherence to the highest ethical standards;
- The alignment between director skills and backgrounds to the Company's business strategy and oversight needs is made clear, with the Company summarizing the breadth of the skills and experience of director nominees, together with the most important key factors and the board's rationale for each nomination;
- The Company discusses the breadth of the board's diversity in a number of areas, including with respect to such factors as industry expertise, gender, and tenure;
- The Company values the diverse perspectives each director brings to the board but identifying and disclosing each nominee's "ideological perspectives" would not be practical or appropriate;
- Because the Company provides robust disclosure on the diversity of the board across many relevant attributes and maintains and discloses minimum qualifications for directors, any additional information requested by this proposal would not provide meaningful information to shareholders;

- The board conducts regular self-assessments so that it functions effectively and identifies areas of potential improvement;
- The Company performs thorough director, committee, and board evaluations and maintains an ongoing board refreshment strategy so that the board continues to benefit from a wide variety of backgrounds and experiences, as well as includes the skills and experiences necessary to effectively oversee management and implement the Company's long-term strategy;
- The governance, organization and nominating committee, in consultation with the chair of the board, evaluates the ongoing contributions, qualifications, and skills of each director in light of the board's composition, evolving business requirements, and the long-term interests of the Company and its shareholders; and
- The board's robust evaluation and refreshment process is designed to provide for a board with directors who bring diverse perspectives, skills, and qualifications.

## GLASS LEWIS ANALYSIS

Glass Lewis believes the selection and screening process for identifying suitably qualified candidates for a company's board of directors is one which requires the judgment of many factors, some of which include the balance of skills and talents, as well as the breadth and diversity of experience of candidates and existing board members. We believe that diversity, viewed broadly, is ultimately a positive force for driving corporate performance, as qualified and committed directors with differing backgrounds, experiences, and knowledge will likely enhance corporate performance.

Further, we believe that a board skills matrix can be a valuable tool for a board to ensure that it has an appropriate mix of skills and experience among current directors. Additionally, the board skills matrix can help formalize the director nomination and succession planning processes. In both cases, we believe disclosure of such is meaningful to shareholders. As such, we are generally inclined to support increased disclosure of the skills of directors and how the skills of directors are evaluated.

### DIRECTOR SKILLS AND NOMINATION CONSIDERATIONS AT THE COMPANY AND ITS PEERS

The Company's governance, organization and nominating committee reviews potential board candidates and recommends board nominees. In its corporate governance principles, the Company states that it "recognizes the value of diversity and the Board seeks diversity of background, experience, skills, and perspectives among its members." Further, in its annual board composition assessment, it includes a review of factors such as experience, diversity, and age. In addition to its director bios, the Company provides a list of director qualification criteria including diversity of background, experience, skills, and perspectives, and includes a list of backgrounds, their alignment with Company strategy, and the number of nominees with that experience attribute (2020 DEF 14A, pp.9-11).

To compare, **Northrop Grumman Corporation's** (NYSE: NOC) governance committee reviews and makes recommendations to the board with respect to the criteria for board membership, which should include, among other things, diversity, experience, and integrity, and also recommends nominees for election. In Northrop Grumman's principles of corporate governance, it states that the governance committee shall consider nominees' contributions to the diversity of the board and the fulfillment of the diversity objectives of Northrop Grumman. In its 2019 proxy statement, Northrop Grumman discloses an aggregate experience matrix in addition to director bios.

Finally, **Lockheed Martin Corporation's** (NYSE: LMT) nominating and corporate governance committee recommends nominees to the board and reviews the criteria for selection of directors. Lockheed Martin's corporate governance guidelines state that the board seeks a diverse group of candidates who, at a minimum, possess the background, skills, expertise and time to make a significant contribution to the board, to Lockheed Martin, and to its shareholders; it also lists potential criteria against which candidates may be measured, including bringing a diverse background. Lockheed Martin also includes a statement on board diversity and an aggregate summary of director-nominees' core competencies in addition to director bios in its most recent proxy statement (p.10).

## RECOMMENDATION

Glass Lewis views the board evaluation process as a critical function that ensures boards have the appropriate representation and diversity of skill sets and attributes necessary to provide effective oversight of a company's operations. Given the importance of this process, we believe that companies should provide shareholders thorough disclosure concerning how directors are evaluated and the processes that have been established to ensure a high-functioning and appropriately diverse board. However, in this case, we believe that the Company has provided such disclosure. Accordingly, we do not believe that adoption of this resolution would necessarily benefit shareholders at this time.

We recommend that shareholders vote **AGAINST** this proposal.

# 5.00: SHAREHOLDER PROPOSAL REGARDING LOBBYING REPORT

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the Company provide an annually updated report regarding its lobbying activities | **SHAREHOLDER PROPONENT:** | Not The Saint Joseph Province of the Capuchin Order with six co-filers |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 32.6% | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**

**FOR -**
- Increased disclosure would allow shareholders to more fully assess risks presented by the Company's indirect lobbying activities

## GLASS LEWIS REASONING

- Despite recently-enhanced disclosure concerning the Company's electioneering expenditures, it still has a significant gap in its disclosure of indirect lobbying expenditures; and
- A more thorough accounting of the Company's indirect lobbying activities would better allow shareholders to assess the Company's exposure to risks associated with its political activity.

## PROPOSAL SUMMARY

**Text of Resolution:** *Resolved, the shareholders of Boeing request the preparation of a report, updated annually, disclosing:*

> *3.*[sic] *Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.*
> *4. Payments by Boeing used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.*
> *5. Boeing's membership in and payments to any tax-exempt organization that writes and endorses model legislation.*
> *6. Description of management's and the Board's decision-making process and oversight for making payments described above.*

*For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which Boeing is a member.*

*Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.*

*The report shall be presented to the Audit Committee or other relevant oversight committees and posted on Boeing's website.*

**Proponent's Perspective**

- The proponents encourage transparency in the Company's use of corporate funds for lobbying;
- The Company is described as "one of the biggest players in the Washington influence game" and spent $152,795,000 from 2010 to 2018 on federal lobbying, which does not include state lobbying, where the Company also lobbies but disclosure is uneven or absent;
- In the wake of the two 737 Max jet crashes, questions have been raised about whether the Company's lobbying led to relaxed Federal Aviation Administration oversight, including "long-standing concerns about industry capture of the FAA, from lobbying by the aerospace industry—Boeing spends millions lobbying Congress and federal agencies each year—to the revolving door between the FAA and Boeing and other companies and lobbying groups in the industry;"
- The Company belongs to the Business Roundtable ("BRT") and National Association of Manufacturers ("NAM"), which together spent $68,128,048 on lobbying for 2017 and 2018;
- Both the BRT and NAM are lobbying against shareholder rights to

**Board's Perspective**

- The board is committed to transparency and strong risk oversight with respect to its political advocacy efforts, and the Company's existing practices render this proposal unnecessary;
- The Company regularly engages in public policy debates at the federal, state, and local levels and works with trade, industry, and civic groups that provide technical, business, professional, and related expertise on matters critical to the Company's long-term success, and the board requires that these activities comply with applicable laws and regulations and the Company's standards of ethical conduct;
- The Company has instituted full transparency into—and extensive oversight of—any political expenditures by the Company and has implemented additional policies and procedures with respect to its lobbying and advocacy activities;
- The Company files both quarterly and semi-annual federal Lobbying Disclosure Act reports with Congress, which are publicly available and detail all Company lobbying expenditures, issues lobbied on, government entities lobbied, Company lobbyists, and expenditures of the Company political action

file resolutions;
- The Company does not disclose its memberships in, or payments to, trade associations or the amounts used for lobbying;
- Investors participating in the Climate Action 100+ representing $34 trillion in assets are asking companies to align their lobbying with the goals of the Paris Agreement;
- The Company's lack of lobbying disclosure creates reputational risks; and
- The reputational damage stemming the 737 Max crashes and any misalignment between general policy positions and actual direct and indirect lobbying efforts harms long-term value creation by the Company.

The proponent has provided additional information concerning its rationale for this proposal

committee, or BPAC, a voluntary, non-partisan, employee-sponsored political action committee;
- The Company posts complete information about federal, state, and local political expenditures by the Company and the BPAC and, in 2020, also began to provide additional information about key trade associations to which it contributes;
- The Company's website describes policies and procedures for Company political contributions, including board oversight procedures and other internal authorizations required before contributions may be made;
- The Company's executive vice president, government operations, reports regularly to the board on the Company's lobbying and other advocacy activities;
- The Company has not made any contributions from corporate funds to federal, state, or local candidates or political parties or ballot initiatives in the last eight years;
- The Company prohibits trade associations and other third-party organizations from using its funds for any election-related political expenditure;
- The Company's robust policies and procedures enhance shareholder value, minimize financial and reputational risk, and reflect its commitment to legal compliance, strong corporate governance, and ethical standards; and
- The 2019 CPA-Zicklin Index of Corporate Political Accountability and Disclosure listed the Company as a “trendsetter” for its efforts with respect to political transparency and accountability.

## GLASS LEWIS ANALYSIS

Companies should provide sufficient disclosure of the use of company funds for political purposes, including grants made to politically active trade associations in order to allow shareholders to evaluate the use of such grants as well as the oversight provided over the making of such grants. Shareholders should evaluate whether benefits of the additional disclosure outweighs the burden to the company.

We believe that companies should consider their exposure to risk stemming from making corporate political expenditures and the nature of board oversight over such spending. Informative disclosure and a robust board oversight of political contributions are important components of corporate accountability. In our view, a rigorous board oversight process can mitigate a company's legal, reputational, and financial risks by ensuring that donations are made in accordance with federal and state laws, consistent with a company's stated values, and will clearly lead to the protection or enhancement of long-term shareholder value.

Given the dramatic increase in overall political spending and the Citizens United Supreme Court decision, investors, spurred by risk concerns, are increasingly seeking more information from companies about their political activities. For detailed information on corporate political spending, including the history, relevant regulation, various ways companies contribute to political causes, and empirical evidence regarding such spending, please see Glass Lewis' *In-Depth: Corporate Political Spending*.

When evaluating whether the report requested would benefit shareholders, Glass Lewis reviews the following information: (i) whether the disclosure provided by the Company is accessible and meaningful; (ii) the level of oversight afforded to the Company's corporate political spending; (iii) how the Company's disclosure and oversight compares with that of its peers; and (iv) any risks to shareholder value as a result of the Company's corporate political spending.

### COMPANY ANALYSIS

| **Company Name** | **The Boeing Company (NYSE: BA)** | **Northrop Grumman Corporation (NYSE: NOC)** | **Lockheed Martin Corporation (NYSE: LMT)** |
|---|---|---|---|
| **Level of Oversight** | States that its process for approving corporate political contributions in state and local elections and ballot initiatives requires the board to authorize a budget for such contributions and that such contributions would be made in accordance with the specific authority granted by the board. | The board's policy committee oversees political activities, including governance and compliance of the political action committee, policies and practices with respect to political contributions, and lobbying activities and receives | The nominating and corporate governance committee oversees advocacy efforts, government affairs activities, and political spending, receives reports from management on these matters, supervises the policies, and reviews |

| | | | |
|---|---|---|---|
| | Further, its executive vice president, government operations reports regularly to the board on lobbying and other advocacy activities. | and lobbying activities and receives regular reports on political activities. | the purposes and benefits of these activities. |
| **Corporate Political Spending Policy** | Yes | Yes | Yes |
| **Direct Political Contributions Disclosure** | States that, since 2010, it has not made any contributions from corporate funds to state or local candidates or political parties. Also states it has not expended any corporate funds since 2011 in support of or opposition to ballot initiatives, or since 2012 for political contributions to section 527 entities. Further states that it has not contributed and does not contribute corporate funds to Super PACs or for electioneering communications or independent expenditures. | States that it has not made any contributions from corporate funds to candidates for state, local, or federal office or to political parties since 2012 and that it has not made any contributions from corporate funds to organizations classified under the Internal Revenue Code as section 527 entities or to any Super PACs, ballot initiatives, electioneering communications, or for independent political expenditures. | Provides an annually-updated itemized list of its corporate state political contributions and states that it does not provide funding to 527 organizations that are not registered as a federal or state political committee except the Democratic Governors Association and the Republican Governors Association and provides an itemized list of its contributions to these organizations. Also states that it has not spent any direct corporate funds on independent expenditure communications to the general public that expressly advocate the election or defeat of a clearly identified federal candidate, and that it has no plans to spend direct corporate funds on such communications. |
| **Indirect Political Contributions Disclosure / Trade Associations Memberships** | States that its policy is to prohibit outside organizations such as trade associations from using its funds for any election-related political expenditure and that it has requested and received written assurance of adherence to that policy by its largest trade associations, but that it does use corporate resources to support its viewpoint on important public policy issues, including expenditures for external entities who advocate on its behalf. Further discloses a list of trade association memberships for organizations with annual dues of $50,000 or more but does not disclose the amount of contributions to each association or the portions | States that trade associations that utilize a portion of membership dues for non-deductible purposes such as lobbying provide an estimate of the amount of membership dues they use for non-deductible purposes. Further states that it prohibits the use of funds to advocate for or against the election of a specific candidate, including through the payment of dues, donations, or other contributions to trade associations or other outside groups. Also provides an itemized list of payments to trade associations to which it paid $25,000 or more in annual dues, as well as the amount of the contributions that each such association estimates are used for non-deductible purposes. | Provides an annually-updated list of the portion of its payments (in ranges of $25,000) to trade associations to which it paid dues of $50,000 or more in a single year that were not deductible under Section 162(e)(1) of the Internal Revenue Code. |

| | | | |
|---|---|---|---|
| | used for lobbying. | used for non-deductible purposes. | |
| **2019 CPA-Zicklin Score** | 91.4 (Trendsetter) | 100.0 (Trendsetter) | 78.6 (Second Tier) |

Overall, we find the Company's political spending and lobbying disclosure to be relatively aligned with that of its peers. All three companies have board-level oversight of political spending and maintain corporate political spending policies. Neither the Company nor Northrop Grumman have made direct political contributions in several years, while Lockheed Martin provides itemized lists of such payments. All three companies disclose payments made to trade associations to some extent, with the Company disclosing associations to which it pays $50,000 or more but not the amounts or the portions used for lobbying; Northrop Grumman disclosing trade associations to which it pays $25,000 or more, the total contribution to each such trade association, and the amount of the contributions that each such association estimates are used for non-deductible purposes; and Lockheed Martin disclosing the portion of its payments (in ranges of $25,000) to trade associations to which it paid dues of $50,000 or more in a single year that were not deductible under Section 162(e)(1) of the Internal Revenue Code.

## RECOMMENDATION

Upon review, we believe that support for this resolution is warranted at this time. We recognize the Company's laudable efforts to enhance its disclosure of its corporate political spending. Specifically, the Company now provides an itemized listing of trade association memberships for organizations with annual dues of $50,000 or more. However, we believe the Company has not provided shareholders with sufficiently accessible disclosure regarding its indirect lobbying expenditures and that it should adopt more detailed disclosure to bring itself in line with its peers. Particularly given recent controversies concerning the Company's close ties to the government, we believe shareholders would benefit from improved lobbying disclosure. Given the nature of the Company's membership in trade organizations, we recognize disclosure of indirect political contributions and expenditures made with corporate funds may prove to be time-consuming and difficult. However, examining the use of such indirect contributions is essential to determining the effectiveness of such organizations in representing the Company's and shareholders' interests. We believe that given the potential negative repercussions from even small grants, such as those made by an association to which the Company has paid membership dues, providing improved disclosure would benefit shareholders by allowing them to weigh the risks of such donations.

We recommend that shareholders vote **FOR** this proposal.

# 6.00: SHAREHOLDER PROPOSAL REGARDING INDEPENDENT CHAIR

**AGAINST**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the chair of the board be an independent director | **SHAREHOLDER PROPONENT:** | Not disclosed |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 34.8% | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**
**AGAINST -** Not in the best interests of shareholders

## GLASS LEWIS REASONING

- Given that the Company has appointed an independent chair, we are unconvinced that adoption of this proposal would affect any kind of meaningful change in the Company's leadership structure and thus do not believe support is warranted at this time.

## PROPOSAL SUMMARY

**Text of Resolution:** *Shareholders request our Board of Directors to adopt as policy, and amend our governing documents as necessary, to require that the Chairman of the Board be an independent member of the Board whenever possible.*

*If the Board determines that an independent Chairman is no longer independent, the Board shall select a new Chairman who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived in the unlikely event that no independent director is available and willing to serve as Chairman.*

**Proponent's Perspective**

- This proposal topic received majority support at five major U.S. companies in 2013;
- This proposal was adopted on a temporary basis with the belated appointment of David Calhoun as independent chair in October 2019;
- Mr. Calhoun has too much on his plate given the current 737 MAX crisis;
- Mr. Calhoun’s day job is as a top executive and a member of the management committee at publicly traded Blackstone Group, the largest private equity firm in the world with ownership stakes in some 200 companies;
- Mr. Calhoun is the lead director at Caterpillar and the inside related chair at Gates Industrial Corp;
- Mr. Calhoun sits next to Dennis Muilenburg and Susan Schwab on the Caterpillar board so has the power to go easy on Mr. Muilenburg at the Company if Mr. Muilenburg will side with him at Caterpillar;
- The proponent expresses dissatisfaction with the background experience of several board members; and
- On chair Calhoun, Ralph Nader, whose grandniece died in the Ethiopia crash said: “There is no way he can do this job and do all those other jobs.”

**Board's Perspective**

- The board has an independent chair as well as a demonstrated record of adjusting its leadership structure in a thoughtful manner depending on circumstances, and it would be inappropriate to impose irrevocable limits on the board’s future flexibility;
- The board separated the roles of chair and CEO in October 2019 in order to enable the then-current CEO to focus full-time on managing the Company as it works to return the 737 MAX safely to service, support its customers around the world, and sharpen its focus on product and services safety;
- The board determined to maintain a separate chair and CEO leadership structure when David Calhoun was elected president and CEO in December 2019;
- Prior to 2019, the Company has had periods where a non-independent director served as chair and has had other periods where the chair role was held by an independent director;
- The independent directors reevaluate the board’s leadership structure in executive session on at least an annual basis, and, in each case, the independent directors select the leadership structure that would best enable the Company to oversee management and help execute its long-term business strategy;
- The Company's long-standing record demonstrates that the independent directors discharge their responsibility thoughtfully and that they should not be irrevocably bound to one particular structure as the Company’s needs evolve;
- If the board once again elected a non-independent board chair, Company policy already requires the election of a lead independent director to help promote effective oversight of management;
- Opinions differ on whether, generally speaking, boards are always better served by having a chair who is independent, but most shareholders tell the Company they prefer to defer to particular boards’ judgment rather than rely on a “one-size-fits-all” policy;
- Shareholders have consistently held that boards where a non-independent director serves as chair must ensure effective oversight of management through, among other things, a strong independent lead director;
- The Company has a policy requiring an independent lead director with robust, well-defined duties in those instances when a non-independent director serves as chair;

- Practices that help ensure effective oversight of management, no matter who serves as chair, include the following: (i) independent directors meet without management in connection with every stated board meeting; (ii) extensive director involvement in executive succession planning; (iii) populating each of the Company's six standing board committees with independent directors only, with regular executive sessions without management present; (iv) each independent director has direct access to management; and (v) independent oversight of all executive compensation matters, including CEO compensation; and
- The Company's existing practices and the collective skills, experience, and integrity of its directors and the requirement to elect an independent lead director when a non-independent director serves as chair ensure effective oversight of management and the Company.

## GLASS LEWIS ANALYSIS

Glass Lewis believes that the appointment of a chair of the board who is independent of management, i.e. not also serving as CEO, is nearly always preferable to having a single individual lead both the board and the executive team. We view an independent chair as better able to oversee the executives of the Company and set a pro-shareholder agenda without the inherent conflicts that a CEO or other executive insiders face. This, in turn, leads to a more proactive, responsive and effective board of directors.

For more information on empirical evidence concerning the separation of chair and CEO, please see Glass Lewis' *In-Depth: Independent Board Chair*.

In this case, the Company has recently separated the roles of chair and CEO. Specifically, for the first part of 2019, Dennis Muilenburg, the Company's former president and CEO, served as chair, while David Calhoun, then an independent member of the board, served as independent lead director. In October 2019, the board elected Mr. Calhoun to serve as chair, with Mr. Muilenburg continuing to serve as president and CEO as well as a member of the board. In December 2019, Mr. Calhoun was elected president and CEO. In conjunction with this transition in executive leadership, the board elected Larry Kellner, an independent director, to serve as chair.

Although the Company has not adopted a policy requiring the separation of the roles or the appointment of an independent chair, we are not convinced that adoption of this proposal would affect any type of meaningful change at the Company, given its current leadership structure. Accordingly, we do not believe that support for this resolution is warranted at this time.

We recommend that shareholders vote **AGAINST** this proposal.

# 7.00: SHAREHOLDER PROPOSAL REGARDING RIGHT TO ACT BY WRITTEN CONSENT

**FOR**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the Company allow shareholder action by written consent | **SHAREHOLDER PROPONENT:** | Not disclosed |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | N/A | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**

**FOR -**
- Shareholder action by written consent enables shareholders to take action on important issues that arise between annual meetings

## GLASS LEWIS REASONING

- We believe the terms of this proposal are reasonable and that they will prevent abuse and waste of corporate resources while enabling shareholders to take action on important issues that arise between annual meetings;
- Given the lack of evidence of abuse of the right to act by written consent, we remain unconvinced that the Company's concerns regarding this issue are so great as to outweigh the ability of shareholders to take action through written consent; and
- There are certain inherent aspects of action by written consent that would prevent abuse of the right from harming shareholder value, such as that a majority of outstanding shares would still need to approve any proposals submitted to shareholders for written consent.

## PROPOSAL SUMMARY

**Text of Resolution:** *Shareholders request that our board of directors take the steps necessary to permit written consent by shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting. This written consent is to give shareholders the fullest power to act by written consent consistent with applicable law. This includes shareholder ability to initiate any appropriate topic for written consent.*

**Proponent's Perspective**

- This proposal topic received majority shareholder support at 13 large companies in a single year;
- Taking action by written consent is a means shareholders can use to raise important matters outside the normal annual meeting cycle like the election of a new director;
- The right for shareholders to act by written consent is gaining acceptance as a more important right than the right to call a special meeting;
- New directors are important for the Company;
- Fortune made a number of observations about Company directors;
- Corporate governance expert Nell Minow, Vice Chair of ValueEdge Advisors said there is something wrong with the Company's board; and
- The proponent expresses dissatisfaction with the outside commitments of board members and with their backgrounds.

**Board's Perspective**

- All shareholders should be permitted to discuss and vote on pending shareholder actions, and action by written consent would circumvent the important deliberative process of a shareholder meeting;
- Through action by written consent, up to 49% of Company shareholders could be prevented from voting or even receiving information on important pending actions;
- An unfettered right to act by written consent could encourage short-term stock ownership and manipulation, allowing a small group of shareholders to quietly accumulate large voting positions (including in derivative transactions) and take important corporate action without the waiting periods, disclosure rules, and other protections inherent in the shareholder meeting and voting process;
- There are limited circumstances in which shareholder action by written consent may be in the long-term interest of shareholders, such as rapidly-changing business requirements that mandate revisions to the Company's certificate of incorporation on a time-sensitive basis, and the Company's governing documents already permit shareholder action by written consent on the prior recommendation of the board;
- The Company's commitment to shareholder engagement and governance best practices, including the right of shareholders to call special meetings, already establishes board accountability;
- The Company's bylaws permit holders of 25% or more of Company shares to call a special shareholder meeting, and this right to call a special meeting, as well as the right to propose items for consideration at annual meetings, offers a transparent and equitable mechanism for shareholders to raise matters for consideration by the Company;
- The Company maintains the following governance practices that afford shareholders the right to regularly express their views and feedback: (i) each director is elected annually by majority voting; (ii) shareholders have the ability to nominate directors through proxy access; and (iii) the Company maintains a robust

shareholder outreach program that provides an open and constructive forum for shareholders to express and raise concerns;

- All shareholders may communicate directly with the chair, the nonemployee directors as a group, or the audit committee; and
- The Company's existing governance practices and policies enables shareholders to bring issues to the attention of the board, hold the board accountable and, where necessary, take quick action to support their interests, however, existing policies implement those goals without the significant governance risk for shareholders associated with the ability to act by written consent without a meeting.

## GLASS LEWIS ANALYSIS

Glass Lewis strongly supports the right of shareholders to effect change at their portfolio companies including by acting by written consent. In this case, we note that the proposal specifies that shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote were present and voting must support the requested action, generally a majority of outstanding shares or higher thus ensuring broad shareholder support. We believe this is a reasonable threshold that will prevent abuse and waste of corporate resources while enabling shareholders to take action on important issues that arise between annual meetings.

We recognize that the Company raises certain concerns about potential harm from abuse of the right to act by written consent. In a January 26, 2012 Proxy Talk we also heard concerns raised by several other corporate representatives similar to those raised by the Company in its response. However, given the lack of evidence of abuse of the right to act by written consent and, in particular, lack of a pattern of using written consent even to attempt to remove directors, we remain unconvinced that these concerns are so great as to outweigh the ability of shareholders to take action through written consent. Further, nothing precludes the Company from adopting safeguards to ensure all shareholders are notified of a written consent solicitation or to prevent abuse of the right.

We believe companies can implement procedural safeguards similar to those used to allow shareholders to call a special meeting. In addition, we believe there are certain inherent aspects of action by written consent that would prevent abuse of the right harming shareholder value. Most importantly, a majority of outstanding shares would still need to approve any proposals submitted to shareholders for written consent. Further, the Company could employ the same means of notifying its shareholders about the consent solicitation as it does for other shareholder meetings, both annual and special, ensuring maximum participation by shareholders who wish to consent or withhold consent.

We recommend that shareholders vote **FOR** this proposal.

# 8.00: SHAREHOLDER PROPOSAL REGARDING RETENTION OF SHARES UNTIL NORMAL RETIREMENT AGE

**AGAINST**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That executives hold a significant portion of shares acquired through equity pay programs until reaching normal retirement age | **SHAREHOLDER PROPONENT:** | Not disclosed |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | 24.8% | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**
**AGAINST -** Not in the best interests of shareholders

## GLASS LEWIS REASONING

- The Company has share ownership and compensation guidelines that sufficiently encourage long-term focus and help align executive and shareholder interests; and
- Severely restricting executives' ability to exercise a significant portion of equity awards until normal retirement age may hinder the ability of the compensation committee to attract and retain executive talent.

## PROPOSAL SUMMARY

**Text of Resolution:** *Resolved: Shareholders of The Boeing Company ("Company") urge the Compensation Committee of the Board of Directors ("Committee") to adopt a policy, allowing for consideration of reasonable exceptions, requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age. For the purpose of this policy, normal retirement age shall be defined by the Company's qualified retirement plan that has the largest number of plan participants.*

*Shareholders recommend the Committee adopt a share retention percentage requirement of at least 25 percent of net after-tax shares awarded. This policy shall supplement any other share ownership requirements that have been established for senior executives, and should be implemented so as not to violate the Company's existing contractual obligations or the terms of any compensation or benefit plan currently in effect.*

**Proponent's Perspective**

- Equity-based compensation is an important component of senior executive compensation at the Company;
- While the use of equity-based compensation for senior executives should be encouraged, it is concerning that the Company's senior executives are generally free to sell shares received from equity compensation plans;
- This proposal seeks to better link executive compensation with long-term performance by requiring meaningful retention of shares senior executives receive from the Company's equity compensation plans;
- Requiring senior executives to hold a significant percentage of shares obtained through equity compensation plans until they reach retirement age, regardless of when the CEO actually retires, will better align the interests of executives with the interests of shareholders and the Company;
- When Company senior executives sell their shares during a share buyback, it sends a mixed message to shareholders because the board is saying that the Company stock is undervalued enough to make the buyback worthwhile, while management is saying it is valued highly enough to be worth selling;
- The Company's current share ownership guidelines for senior executives do not go far enough to ensure that the Company's equity compensation plans continue to build stock ownership by senior executives over the long-term;
- Requiring senior executives to only hold shares equal to a set target loses effectiveness over time as, after satisfying these target holding requirements, senior executives are free to sell all the additional shares they receive in equity compensation;
- The Company's share ownership guidelines require its CEO to hold shares equal to six times base salary, equal to $10.2 million in 2018, but the Company granted its CEO equity awards with total

**Board's Perspective**

- The Company already requires senior executives to own significant amounts of Company stock throughout the term of their employment;
- The Company's minimum ownership requirements for executives are based on pay grade and range from three times base salary for senior vice presidents to six times base salary for the CEO;
- The compensation committee annually reviews officers' ownership relative to their requirements and may adjust the cash/equity mix of an executive's compensation if needed;
- Many of the Company's senior executives own the Company's stock at levels far in excess of their requirements;
- Executive officers must hold all newly-vested stock (net of shares withheld for tax purposes) until their minimum stock ownership has been satisfied;
- The Company prohibits executives from pledging stock and from reducing their economic exposure to stock through hedging transactions, and as a result, executives' interests are aligned with those of shareholders;
- The compensation committee believes that the existing policies compare favorably with those of peer companies;
- The Company's existing executive compensation program already emphasizes long-term equity ownership by executives, which is the best way to motivate management to build sustained shareholder value;
- The Company delivers a significant percentage of its executive compensation in long-term incentive-based equity awards;
- The Company's restricted stock units reward long-term value creation because they generally do not vest until the third anniversary of the grant date and increase in value only to the extent the value of Company stock increases;
- The Company's performance-based restricted stock units pay out

- grant date fair value of $7.3 million in 2018 and $5.7 million in 2017, enabling him to satisfy the ownership requirement in just two years;
- Without stronger retention requirements, the CEO is generally free to sell any additional equity awards granted; and
- Requiring executives to retain a portion of all annual stock awards provides incentives to avoid short-term thinking and to promote long-term shareholder value.

in shares of Company stock based on the Company's total shareholder return over the three-year performance period relative to a group of peer companies;

- The Company's performance awards pay out only upon achievement of the Company's long-term financial performance goals over a three-year period; and
- Each compensation element ties executive pay to long-term shareholder value, rendering unnecessary additional requirements such as mandatory post-termination stock ownership.

## GLASS LEWIS ANALYSIS

Glass Lewis believes that executives should be encouraged to retain shares granted under companies' executive compensation programs to ensure they act in the best long-term interests of shareholders. However, Glass Lewis does not believe shareholders should be directly involved in the design and negotiation of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. While we believe shareholders should be afforded the opportunity to cast a nonbinding vote on executive compensation, we generally do not believe shareholders should support the implementation of specific compensation restrictions. This proposal seeks to grant shareholders a role in the setting of executive compensation policy, which we believe is a task more appropriately exercised by the board.

In this case, the Company maintains the following share ownership guidelines:

- CEO: six times base salary;
- Executive vice presidents: 4 times base salary;
- Senior vice presidents: 3 times base salary; and
- Vice presidents: one or two times base salary based on executive grade.

(2020 DEF 14A, p.47)

In addition, the Company has adopted a hedging policy. Specifically, the Company states that directors and executive officers are prohibited from trading in “puts” and “calls” and engaging in short sales of, or hedging, pledging, or monetization transactions (such as zero-cost collars) involving, Company securities. Glass Lewis believes that share ownership and compensation guidelines, such as these, sufficiently encourage long-term focus and help to align executive and shareholder interests.

While we strongly support the linking of executive pay to the creation of long-term sustainable shareholder value, we do not believe that proposals such as this one are the most effective or desirable way to induce change at target companies. Rather, we believe that severely restricting executives' ability to exercise such a significant portion of equity awards until normal retirement age may hinder the ability of the compensation committee to attract and retain executive talent. Otherwise qualified and willing candidates may be dissuaded from employment at the Company if they believe that their compensation could be dramatically affected by financial results completely unrelated to their own personal performance or tenure at the Company. Further, as contemplated under the terms of this proposal, executives could be forced to wait for decades to realize the gains from their equity grants depending on the age of the executive and the determination of what constitutes normal retirement age. As such, we do not believe that supporting this proposal serves the best interests of shareholders at this time.

We recommend that shareholders vote **AGAINST** this proposal.

# 9.00: SHAREHOLDER PROPOSAL REGARDING DISCLOSURE OF ADJUSTMENTS TO NON-GAAP METRICS IN EXECUTIVE COMPENSATION

**AGAINST**

| | | | |
|---|---|---|---|
| **PROPOSAL REQUEST:** | That the Company include an explanation of its rational for each adjustment or modification of any GAAP metric for determining compensation | **SHAREHOLDER PROPONENT:** | Not disclosed |
| **BINDING/ADVISORY:** | Precatory | | |
| **PRIOR YEAR VOTE RESULT (FOR):** | N/A | **REQUIRED TO APPROVE:** | Majority of votes cast |

**RECOMMENDATIONS, CONCERNS & SUMMARY OF REASONING:**
**AGAINST -** Not in the best interests of shareholders

## GLASS LEWIS REASONING

- We believe that the Company's existing disclosure allows shareholders to evaluate the use of and adjustments to non-GAAP metrics; and
- Given the Company's existing disclosure, as well as shareholders' ability to express concerns with the Company's executive compensation program through their advisory vote on executive compensation, we are unconvinced that adoption of the proposed policy would benefit shareholders.

## PROPOSAL SUMMARY

**Text of Resolution:** *Resolved: Shareholders of The Boeing Company (the "Company") urge the Board of Directors (the "Board") to adopt a policy that when the Company adjusts or modifies any generally accepted accounting principles ("GAAP") financial performance metric for determining senior executive compensation, the Compensation Committee's Compensation Discussion and Analysis shall include a specific explanation of the Compensation Committee's rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP.*

**Proponent's Perspective**

- The Company selects several metrics to assess senior executive performance for purposes of determining incentive compensation, however, several of these metrics were "adjusted by the compensation committee to better reflect core operating performance;"
- The 2018 annual incentive plan used free cash flow, core EPS, and revenue as the performance metrics, and the Company excluded capital expenditures from GAAP operating cash flow to calculate free cash flow, while, in addition, "the Compensation Committee, consistent with its authority and past practices, adjusted core EPS upward to exclude or partially exclude the impact of strategic investments in the MQ-25 and T-X programs and a litigation outcome, and adjusted core EPS downward to exclude the financial impact of lower-than-planned tax rates;"
- The 2016-2018 performance awards used economic profit as the only performance metric;
- The Company calculated economic profit as the difference between adjusted operating earnings and a capital charge, and economic profit was further adjusted upwards to "exclude or partially exclude the financial impact of historically low discount rates that caused higher pension expense, reclassification of two early-build flight test 787 aircraft to research and development expense, deterioration in the air cargo market, a litigation outcome, and changes in commodity price indices that impacted price escalation formulas for our Commercial Airplanes business. The Compensation Committee decreased economic profit to exclude the financial impact of lower-than-planned tax rates;"
- The Company's explanation for using GAAP-adjusted metrics for executive pay in the 2019 proxy statement was vague and unsatisfactory;
- The use of GAAP-adjusted metrics may inflate senior executive compensation by overstating the Company's financial performance as measured by GAAP, and the compensation committee should provide a specific explanation for why these adjustments were made;

**Board's Perspective**

- This proposal is unnecessary as the Company already identifies all adjustments made to its incentive performance metrics, including whether each adjustment had the effect of increasing or decreasing executives' compensation;
- The compensation committee has long prohibited any adjustment to performance metrics unless it is necessary in order to more accurately reflect the Company's core operating performance, and specifically, any adjustments are limited to those addressing the impact of: (i) significant external events outside management's control, such as tax or regulatory changes; (ii) management decisions intended to drive long-term shareholder value that generate short-term financial impacts, such as acquisitions and unplanned share repurchases; or (iii) significant changes to market conditions that were not foreseeable at the outset of the performance period;
- Certain events can distort the extent to which final metrics properly reflect the Company's core performance, unless their impact is addressed through adjustments, and, in order to be transparent about those impacts, the Company has consistently disclosed all such adjustments, whether each one has the effect of increasing or decreasing the relevant performance level, and whether the net effect of all adjustments was positive or negative;
- This proposal inaccurately implies that the Company may be adjusting performance metrics in order to increase executives' compensation rather than to more effectively reflect actual performance;
- The compensation committee made no adjustments to the 2019 annual incentive score or 2017-2019 performance award score, both of which paid out at $0 for all senior executives, and, in 2018, the net effect of adjustments resulted in lower payments to senior executives in that year than if the compensation committee did not act;
- There is no evidence to suggest that the compensation committee adjusts performance in order to increase executive compensation, let alone that it does so to reward executives who

- Companies should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation, and the Council of Institutional Investors has petitioned the SEC to address this lack of transparency with the petition seeking " ... a requirement for clear explanations and GAAP reconciliations that would permit a shareholder to understand the company's approach and factor that into its say-on-pay vote and/or buy/sell decision."

fail to achieve desired levels of performance; and

- The compensation committee only makes adjustments to performance metrics that reflect the Company's core operating performance, regardless of the direction or magnitude of impact to incentive payments.

## GLASS LEWIS ANALYSIS

In general, Glass Lewis does not believe shareholders should be directly involved in the design and negotiation of compensation packages. Such matters should be left to the board's wholly-independent compensation committee, which can be held accountable for its decisions through the election of directors. Further, shareholders have the opportunity to voice their approval or dissatisfaction with respect to Company executive compensation policies, practices, and disclosure through a nonbinding, advisory vote on executive compensation. We believe that this is a more appropriate mechanism to express dissatisfaction with specific provisions in a company's compensation plan. In general, therefore, we do not believe shareholders should support the implementation of specific compensation restrictions.

This proposal, however, is requesting that the Company adopt a policy to include a specific explanation of the compensation committee's rationale for each adjustment or modification of any GAAP metric for determining senior executive compensation. We believe that companies should provide disclosure concerning how and why they are making adjustments to financial metrics for the purposes of executive compensation. However, this is disclosure that is already provided by most companies, including the Company.

The Company states that the compensation committee has the discretion to adjust the performance metrics for officer pay to account for: (i) significant external events outside management's control, such as tax or regulatory changes; (ii) management decisions intended to increase long-term value but that create short-term financial impacts, such as major acquisitions or dispositions or unplanned share repurchases; and (iii) significant changes to market conditions that were not foreseeable at the outset of a performance period. However, the Company states that none of its performance metrics were adjusted for 2019 or the 2017-2019 performance period, which used the same metrics for performance awards granted in 2017 (2020 DEF 14A, p.40).

The Company employs the below adjusted metrics for its executive compensation program and provides the following explanation for their adjustments:

- Free Cash Flow
  - GAAP operating cash flow, less capital expenditures for property, plant, and equipment additions.
- Core Earnings Per Share
  - GAAP diluted earnings per share, excluding the net impact of unallocated pension and other post-retirement benefit expenses.

(2020 DEF 14A, p. 40)

The Company also provides extensive details concerning its non-GAAP reconciliation in a Form 8-K. In totality, we believe that this disclosure is more than sufficient to allow shareholders to evaluate the use of these adjustments.

Given the Company's existing disclosure, as well as shareholders' ability to express concerns with the Company's executive compensation program through their advisory vote on executive compensation, we are unconvinced that adoption of the proposed policy would benefit shareholders. Thus, we do not believe that shareholders should support this measure at this time.

We recommend that shareholders vote **AGAINST** this proposal.

# COMPETITORS / PEER COMPARISON

| | THE BOEING COMPANY | UNITED TECHNOLOGIES CORPORATION | LOCKHEED MARTIN CORPORATION | FORD MOTOR COMPANY |
|---|---|---|---|---|
| **Company Data (MCD)** | | | | |
| Ticker | BA | UTX | LMT | F |
| Closing Price | $123.27 | $105.40 | $328.59 | $5.63 |
| Shares Outstanding (mm) | 564.2 | 856.5 | 281.7 | 3,964.9 |
| Market Capitalization (mm) | $69,552.1 | $90,461.1 | $92,568.1 | $22,322.6 |
| Enterprise Value (mm) | $88,916.1 | $131,971.1 | $104,857.1 | $170,651.6 |
| Latest Filing (Fiscal Period End Date) | 12/31/19 | 12/31/19 | 12/31/19 | 12/31/19 |
| **Financial Strength (LTM)** | | | | |
| Current Ratio | 1.1x | 1.1x | 1.2x | 1.2x |
| Debt-Equity Ratio | 0.00x | 1.05x | 4.34x | 4.72x |
| **Profitability & Margin Analysis (LTM)** | | | | |
| Revenue (mm) | $76,559.0 | $77,046.0 | $59,812.0 | $155,900.0 |
| Gross Profit Margin | 6.2% | 26.2% | 14.0% | 8.3% |
| Operating Income Margin | -2.7% | 13.3% | 12.9% | 1.7% |
| Net Income Margin | -0.8% | 7.2% | 10.4% | 0.0% |
| Return on Equity | - | 14.0% | 269.7% | 0.2% |
| Return on Assets | -1.0% | 4.7% | 10.4% | 0.6% |
| **Valuation Multiples (LTM)** | | | | |
| Price/Earnings Ratio | - | 16.4x | 15.0x | - |
| Total Enterprise Value/Revenue | 1.2x | 1.7x | 1.8x | 1.1x |
| Total Enterprise Value/EBIT | - | 12.8x | 13.6x | 64.2x |
| **Growth Rate* (LTM)** | | | | |
| 5 Year Revenue Growth Rate | -3.3% | 5.9% | 8.4% | 1.6% |
| 5 Year EPS Growth Rate | - | -0.7% | 16.8% | -49.7% |
| **Stock Performance (MCD)** | | | | |
| 1 Year Stock Performance | -68.5% | -16.3% | 11.0% | -33.2% |
| 3 Year Stock Performance | -30.3% | -6.8% | 22.0% | -55.5% |
| 5 Year Stock Performance | -17.4% | -11.2% | 66.7% | -65.2% |

Source: Capital IQ

MCD (Market Close Date): Calculations are based on the period ending on the market close date, 04/02/20.
LTM (Last Twelve Months): Calculations are based on the twelve-month period ending with the Latest Filing.
*Growth rates are calculated based on a compound annual growth rate method.
A dash ("-") indicates a datapoint is either not available or not meaningful.

# VOTE RESULTS FROM LAST ANNUAL MEETING APRIL 29, 2019

Source: 8-K (sec.gov) dated April 29, 2019

## RESULTS

| NO. | PROPOSAL | FOR | AGAINST/WITHHELD | ABSTAIN | GLC REC |
|---|---|---|---|---|---|
| 1.1 | Elect Robert A. Bradway | 97.27% | 1.54% | 1.19% | For |
| 1.2 | Elect David L. Calhoun | 96.46% | 2.10% | 1.44% | For |
| 1.3 | Elect Arthur D. Collins, Jr. | 96.63% | 2.55% | 0.83% | For |
| 1.4 | Elect Edmund P. Giambastiani, Jr. | 97.06% | 1.78% | 1.16% | For |
| 1.5 | Elect Lynn J. Good | 97.27% | 1.58% | 1.15% | For |
| 1.6 | Elect Nikki R Haley | 97.54% | 1.88% | 0.58% | For |
| 1.7 | Elect Lawrence W. Kellner | 92.79% | 6.00% | 1.21% | Against |
| 1.8 | Elect Caroline B. Kennedy | 96.54% | 2.38% | 1.08% | For |
| 1.9 | Elect Edward M. Liddy | 96.39% | 2.73% | 0.89% | For |
| 1.10 | Elect Dennis A. Muilenburg | 97.13% | 2.21% | 0.65% | For |
| 1.11 | Elect Susan C. Schwab | 96.10% | 2.82% | 1.08% | For |
| 1.12 | Elect Ronald A. Williams | 96.83% | 1.94% | 1.23% | For |
| 1.13 | Elect Mike S. Zafirovski | 96.57% | 2.62% | 0.82% | For |
| 2.0 | Advisory Vote on Executive Compensation | 92.00% | 6.76% | 1.24% | For |
| 3.0 | Ratification of Auditor | 96.08% | 3.35% | 0.56% | For |

## SHAREHOLDER PROPOSALS*

| NO. | PROPOSAL | FOR | AGAINST | GLC REC |
|---|---|---|---|---|
| 4.0 | Shareholder Proposal Regarding Lobbying Report | 32.61% | 67.39% | For |
| 5.0 | Shareholder Proposal Regarding Excluding Share Repurchases in Executive Compensation | 6.80% | 93.20% | Against |
| 6.0 | Shareholder Proposal Regarding Independent Board Chair | 34.77% | 65.23% | For |
| 7.0 | Shareholder Proposal Regarding Proxy Access Bylaw Amendment | 24.04% | 75.96% | Against |
| 8.0 | Shareholder Proposal Regarding Retention of Shares Until Normal Retirement Age | 24.85% | 75.15% | Against |

*Abstentions excluded from shareholder proposal calculations.

# APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

## DISCLOSURES



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## LEAD ANALYSTS

| **Governance:** | **Compensation:** | **Shareholder Proposals:** |
|---|---|---|
| Crystal Milo | Maria Vu | Max Darrow |