

**UNITED STATES DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
NORTHWEST MOUNTAIN REGION
OFFICE OF REGIONAL COUNSEL

SETTLEMENT AGREEMENT**

In the Matter of:

The Boeing Company (Boeing Commercial Airplanes).

The Federal Aviation Administration (FAA) and the Boeing Company, through its business unit Boeing Commercial Airplanes (BCA), (collectively, “the parties”) enter into this Settlement Agreement (Agreement) by and through their undersigned representatives to resolve the allegations documented in the following Enforcement Investigative Reports (EIRs): 2010NM410014, 2012NM520006, 2012NM520035, 2011NM520003, 2012NM520057, 2012NM410009, 2013NM410010, 2013NM410021, 2013NM410018, 2013NM410009, 2014NM410014, 2015NM410003, and 2015NM410013 (the “pending cases”).

Recitals.

WHEREAS, this Agreement is issued under the authority contained in 49 U.S.C. Sections 40113, 46102(a) and 46301.

WHEREAS, the FAA issues type certificates under Title 14, Code of Federal Regulations (14 CFR) part 21. Type certificates constitute the FAA’s confirmation that the design of a product, such as an airplane or its engine, meets FAA standards. The FAA has approved applications from BCA for type certificates for the designs of many models of airplanes, including designs for the 737, 747, 757, 767, 777, and 787 models that are the subject of EIRs to be resolved by this Agreement.

WHEREAS, the FAA’s approval of a type certificate for transport category airplanes creates obligations under 14 CFR part 26 for the holder.

WHEREAS, the FAA has granted BCA authority to manufacture aircraft under 14 CFR part 21. This authority is manifested in the form of a production certificate issued by the FAA. BCA is the holder of Production Certificate No. 700.

WHEREAS, subpart G of 14 CFR part 21 requires production certificate holders to maintain and implement a quality assurance program that has been approved by the FAA.

WHEREAS, to determine whether BCA is complying with its quality assurance program, the FAA conducts surveillance of BCA's production processes.

WHEREAS, following such surveillance, the FAA compiled evidence into investigations, and opened 13 EIRs, which are the pending cases and the subject of this Agreement.

WHEREAS, the FAA, upon reviewing the evidence contained in the pending cases and applying the agency's compliance and enforcement policies, determined that civil penalty action against BCA is appropriate.

WHEREAS, the FAA has identified most of the pending cases as involving apparent failures of corrective action.

WHEREAS, BCA recognizes that regulatory compliance is critical to the quality, safety, and prompt delivery of its products. BCA therefore has committed and is further committing, with this Agreement, to continue its efforts to improve its processes and practices for ensuring compliance with regulatory commitments.

WHEREAS, since the FAA announced proposed penalties in two of the pending cases, BCA has, at the direction of its senior management, voluntarily implemented significant organizational and process improvements designed to enhance its regulatory compliance and increase its accountability for the same.

WHEREAS, BCA wishes to further improve and enhance its self-correcting systems which are designed to correct any regulatory noncompliances and prevent their recurrence, and apply those lessons to prevent other noncompliances without the need for FAA involvement.

WHEREAS, based on BCA's having undertaken significant systemic initiatives, and its commitment in this Agreement to implement additional significant systemic initiatives, to strengthen its regulatory compliance processes and practices, the FAA believes that both BCA and FAA resources can be deployed most effectively by promoting, implementing, and verifying these improvements.

WHEREAS, the FAA believes that it is in the public interest to settle all claims arising from the pending cases, given BCA's initiatives to date and BCA's additional commitments in this Agreement.

WHEREAS, the FAA would not have agreed to the monetary amounts set forth in this Agreement absent BCA's current and planned remedial efforts, including specifically BCA's agreement to perform the obligations described below.

WHEREAS, the FAA and BCA agree that the public interest and safety in air transportation are best served by certificate holders that take actions voluntarily to address past concerns, and the FAA acknowledges that BCA has invested and is committing to invest significant resources in its processes, its people, its internal organization, and its systems, in ways that exceed FAA regulatory requirements.

WHEREAS, the parties intend BCA's commitments in this Agreement, together with the initiatives it already has undertaken, to improve BCA's performance in meeting regulatory compliance obligations. Nevertheless, the parties recognize that even well-designed regulatory compliance processes and practices are subject to human error and, as a consequence, the parties intend that this Agreement assist and strengthen BCA's compliance systems by instituting processes and practices to identify and eliminate conditions that may lead to noncompliance, whether the root cause of such conditions be individual or systemic. The parties further expect that this Agreement, fully implemented on the agreed-upon schedule, will result in a high degree of assurance of compliance in the specified areas of compliance and the continuation of such high level of performance into the indefinite future.

The specified regulatory compliance areas whose specific metrics and requirements are more expressly delineated in the Appendices to this Agreement (which are incorporated into and made an integral part of this Agreement) and in Section I below are:

- A. Safety Management;
- B. Regulatory Compliance Plan;
- C. Organization Designation Authorization (ODA) and Internal Auditing System for Regulatory Compliance;
- D. Specification Improvement;
- E. First Article Verification;
- F. Problem Solving and Sustainment;
- G. Accuracy of Stamping and Other Verifications;
- H. Quality of Submissions;

- I. Timeliness of Submissions;
- J. Audits of BCA Suppliers for Acceptance of Work Performed;
- K. Sustained Effectiveness of Implemented Letter of Investigation (LOI) Corrective Actions; and
- L. Compliance Reporting.

NOW, THEREFORE, in consideration of the mutual covenants and payments described herein, the FAA and BCA hereby AGREE as follows:

I. OBLIGATIONS OF BCA.

The obligations to meet the performance metrics set forth in this Agreement lie with BCA, not the ODA unit or any other designee of the FAA.

A. Safety Management.

1. BCA has adopted the Safety Management Systems (SMS) Plan ("SMS Plan"), that is attached to, and part of, this Agreement as Appendix 1. In implementing this plan, BCA will follow its SMS Manual, which the FAA has reviewed and determined to be acceptable to meet the intent of International Civil Aviation Organization (ICAO) Annex 19 when fully implemented, recognizing that to be acceptable to the FAA, company compliance with FAA regulations is a fundamental principle of any SMS plan. This SMS Plan is comprehensive, i.e., it addresses all BCA SMS activities as an integrated system among design, planning, production, and maintenance for the continued operational safety, certification, and airworthiness of all BCA products. The SMS Plan also includes mechanisms that proactively seek continual process improvements, and corrects undesired conditions. BCA will use the SMS Plan in all aspects of its activities that relate to compliance with 14 CFR parts 21, 25, 26, and 183, for the duration of this Agreement.
2. Beginning April 1, 2016, BCA will perform safety assessments in accordance with the most recent version of the FAA's Transport Airplane Risk Assessment Model (TARAM) identified in the FAA Transport Airplane Directorate (TAD) Policy Statement ANM 25-05, "Risk Assessment Methodology for Transport Category Airplanes," (TARAM Handbook) for all safety issues identified by BCA's safety boards or by the FAA, and will provide the FAA, within 10 business days of such safety issue identification, with its TARAM results. Within 30 business days of safety issue identification, BCA will provide the FAA a draft of the End-to-End

form, with the following information included: Boeing Continued Operational Safety (COS) item number, Boeing service-related problem (SRP) number, Safety Issue Description, draft Risk Outer Marker Times, and draft proposal for Joint Preliminary Agreed Times. The TARAM results and the draft End-to-End form will then be coordinated and finalized between the Seattle Aircraft Certification Office (SACO) or Los Angeles Aircraft Certification Office (LAACO), as appropriate, and Boeing outside of this Agreement.

3. In the event that SMS becomes a federal regulatory requirement, to the extent the new regulations impose additional requirements, BCA will modify the SMS Plan to fully comply with those regulations.

B. Regulatory Compliance Plan.

BCA has adopted a comprehensive Regulatory Compliance Plan (RCP) that is attached to, and part of, this Agreement as Appendix 2, in order to improve its regulatory compliance performance and increase the focus and prioritization of BCA managers on regulatory compliance, including the following elements:

1. **RCP Responsibility.** The RCP identifies the BCA executive-level positions (Accountable Executives) whose duties include primary responsibility for implementation of the RCP.
2. **Accountability.** The RCP reflects that BCA incorporates compliance performance as one of the factors that influences the evaluation of BCA managers with substantial FAA compliance responsibilities, and encourages the FAA to give feedback to BCA regarding the compliance performance of appropriate BCA managers. BCA will consider this feedback in its evaluations of BCA managers.
3. **Performance.** The RCP ensures that responsibility for areas of regulatory compliance are assigned to individuals; includes mechanisms that identify areas of potential risk for regulatory noncompliance; and contains processes mandating that BCA address areas of regulatory noncompliance promptly, effectively, and before FAA compliance action or enforcement action is warranted. The RCP includes processes that align with BCA's SMS Plan so that BCA will apply lessons learned from regulatory noncompliances in a manner designed to prevent noncompliances (recurring and other) and improve BCA compliance systems. The RCP identifies specific measures BCA will take to achieve and maintain compliance.

- a. The RCP requires BCA to implement processes no later than January 1, 2016.
- b. BCA will maintain the responsibilities and commitments in the RCP for the duration of this Agreement.
- c. The RCP reflects that BCA will make periodic, but no less than annual, communications from the BCA Chief Executive Officer (CEO) to all employees regarding expectations for regulatory performance, and other periodic communications of regulatory issues important to the company.

C. Organization Designation Authorization (ODA) and Internal Auditing System for Regulatory Compliance.

1. ODA.

- a. ODA Unit Reporting. BCA holds an ODA Unit, whose Lead Administrator reports directly to the Accountable Executive under BCA's SMS Plan. BCA will maintain this direct reporting relationship for the duration of this Agreement.
- b. ODA Structure. The ODA Lead Administrator ensures that the ODA fulfills its delegation responsibilities and that no conflicting duties or other interference affects the performance of authorized functions by ODA unit members. To avoid any potential conflict, the Lead Administrator and the deputy Lead Administrator will not advocate for BCA as the applicant in any interaction on specific compliance issues with the FAA. The holder of the Lead Administrator position may have other non-ODA related functions and responsibilities within BCA for promoting the safety and airworthiness of BCA products and services.

2. Internal Auditing System.

Specific details and actions required of BCA to support the commitments in this paragraph C.2 are set forth in Appendix 3 to this Agreement.

- a. Internal Audit Reporting. BCA has an independent internal audit team that reports directly to the Vice President of Quality under BCA's corporate structure. BCA will maintain this direct reporting relationship and structure for the duration of this Agreement.
- b. Audit Team. BCA's internal auditing system is implemented in part by an internal audit team, which includes permanent members and supporting

participants possessing the technical qualifications necessary to effectively assess all aspects of BCA compliance with FAA regulatory requirements. This internal audit system is integrated with BCA's SMS Plan and incorporates a self-correcting philosophy.

- c. Audit System Responsibility. BCA has developed and deployed a comprehensive internal audit system under a single organizational reporting and management structure. This internal audit system will assess all aspects of BCA compliance with FAA regulatory requirements at all sites and across the value stream (including Engineering, Supplier Management, Production, Modification, Repair, and Customer Support).
- d. Audit Team Competence. Beginning January 1, 2016, and for the duration of this Agreement, BCA will ensure the internal audit team comprises individuals, including permanent team members and supporting participants, possessing the technical qualifications and auditing skills necessary to effectively assess FAA regulatory compliance for BCA.

e. Self-Correcting System.

- (1) BCA's self-identifying and self-correcting internal audit system will ensure the Boeing Problem Solving Model (BPSM), currently set forth in Appendix 4, is applied to all findings. The BPSM methodology will clearly define the problem, identify root cause(s), define and test solutions, implement solutions, and sustain the gains. [REDACTED]

- (2) By January 1, 2017, the internal audit team, as part of its audits, will evaluate, on a comparative and system-wide basis, the practices and procedures among facilities and programs for consistency of output and regulatory compliance.

- f. Risk Assessment of All Internal Audit Processes. By January 1, 2018, and for the duration of this Agreement, BCA will apply a risk assessment model to all BCA processes that are subject to the internal audits described in this section. These risk assessments will adapt to changing conditions for hazards and provide avenues for FAA feedback. The model will analyze the results from BCA's internal audit process and from FAA oversight. BCA will use this

information to help identify and correct issues and enhance its internal audit process.

- g. Performance Indicators. By January 1, 2016, BCA will provide the FAA with a baseline effectiveness measurement of the internal audit system as related to, at a minimum: [REDACTED]

[REDACTED] Thereafter, quarterly, BCA will provide the FAA the results of its internal audits in these minimum areas in order to show BCA's internal audit effectiveness. Additionally, to measure whether the corrective actions implemented in response to the issues identified in internal audits are effective and sustained, BCA will [REDACTED]

- h. BCA Internal Audit – Engineering.

(1) Beginning March 1, 2016, and for the duration of this Agreement, BCA Internal Audit will supplement process audits with associated product and deliverables audits using Engineering subject matter experts. BCA will submit to the FAA for approval changes to its ODA Procedures Manual and changes to its associated Internal Audit procedures in accordance with the dates identified in Appendix 3.

(2) Beginning March 1, 2016, and for the duration of this Agreement, this internal audit team will assess risk and then select areas for audit in accordance with that assessment. Following this assessment, engineering audits will include an evaluation of the following aspects of projects:

[REDACTED]
[REDACTED]
[REDACTED].

D. Specification Improvement.

1. Based on the risk assessment methodology outlined in the Specification Improvement Standard Work Document, BCA will conduct at least [REDACTED] Specification Improvement workshops per calendar year over the next five (5) years, beginning January 1, 2016. This activity will include the process specifications required by 14 CFR 25.605 that are widely used on BCA products as determined in the Specification Improvement Standard Work Document. Each

workshop will pertain to a specific specification chosen, based on the above risk assessment or business need, and will result in an improved specification to submit into the release process (per [REDACTED]) for use in design, build, delivery and support of BCA products. BCA will notify the FAA regarding its findings.

- a. Upon request, improved specifications highlighting the changes will be provided to the FAA. The improvement process is not intended to change the technical content or intent of the standard; however, if technical changes are incorporated, the specification will be submitted to the FAA for review and comment through the release process that exists as of the date of execution of this Agreement.
 - b. Risk assessment of these standards is and will continue to be based on [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
2. By January 1, 2016, BCA will document in a local work instruction [REDACTED] the detailed steps to reflect the controls needed for the initiation and maintenance of the improved specifications and how to conduct these workshops. By the same date, BCA will review any changes to [REDACTED] that may be necessary to carry out this paragraph.
 3. Findings resulting from these workshops will support the development of specification writing style guides and checklists to be used upon creation and revision of all specifications. Each specification will be required to adhere to the requirements outlined in the style guide prior to release. BCA will also change any command media that provides guidance on how to write a BCA specification for commercial airplanes to reflect the controls needed for the initiation and maintenance of the improved specifications that are developed in these workshops.

E. First Article Verification.

1. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]. All changes to such procedures and processes will go through FAA review prior to release for the duration of this Agreement. This process will apply to all new or major changed installations as defined by 14 CFR 21.93(a) and (b).

2. BCA will deploy the improved FAV processes across BCA no later than the beginning of January 2017.

F. Problem Solving and Sustainment.

1. **Boeing Problem Solving Model (BPSM).** BCA has adopted the BPSM. The BPSM is attached to, and part of, this Agreement as Appendix 4.
 - a. Upon execution of this Agreement, BCA will use the BPSM to analyze all allegations of regulatory noncompliance identified in Letters Of Investigation (LOIs), Letters Of Acknowledgment (LOAs), Surveillance Evaluation Records (SERs), Notifications of Airworthiness Noncompliance, and Safety Issues as determined by Boeing or the FAA for the affected airplane model(s), prior to the closure of the corrective action. For purposes of this Agreement, Boeing-identified safety issues are those identified by the Boeing Safety Review Board (SRB).
 - b. Beginning January 1, 2016, and for the duration of this Agreement, BCA will apply the BPSM to properly identify the root cause of each allegation and safety issue associated with the conditions identified in paragraph F.1.a, and use that root cause determination to address the noncompliance or safety issue and develop actions intended to prevent similar noncompliances or safety issues in the future.
 - c. BCA will make summaries of the BPSM analyses, and related BPSM documents, available to the FAA upon request. BCA will make available to the FAA upon request any additional information related to the problem statement, root cause(s), proposed/tested solutions, and sustain the gains activity.
2. **Pre-coordination.** Beginning January 1, 2016, and for the duration of this agreement, if BCA needs clarification about any of the alleged violations or the requirements being referenced in the documents in paragraph F.1.a, BCA may,

within the three (3) business days after the date of receipt of that document, request a clarification meeting with the FAA. The FAA will use its best efforts to support such a meeting.

G. Accuracy of Stamping and Other Verifications.

- 1. Engineering Quality.** For the duration of this Agreement, BCA will adopt processes sufficient to self-assess the compliance and timeliness of its applicant compliance submissions, and accountability of those persons making such compliance determinations. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

- 2. Root Causes.** As of the date of execution of this Agreement, BCA will apply the BPSM [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]. BCA Supplier Quality will ensure the BPSM or a similar structured problem-solving methodology is applied to all stamping violations.

3. Training.

- a. Stamping Accountability Training. BCA has adopted a training course on stamping accountability for all BCA manufacturing and quality employees with stamping authority. [REDACTED], "stamping" consists of either of the following:

- (1) Electronic Stamp – A computing access account assigned and traceable to an individual responsible for its use within computing applications as an indicator of process status or completion on product record; or
- (2) Physical Stamp – Any stamp assigned and traceable to an individual responsible for its use to apply an impression on process, products, or product records as an indicator of process status or completion.

This course has been reviewed and accepted by the FAA. BCA will make this training mandatory for all manufacturing and quality employees, with a mandatory completion date of July 31, 2016. BCA will thereafter require mandatory recurring training to all BCA manufacturing and quality employees with stamping authority on a frequency of least every 24 months.

- b. BCA Supplier Management and Supplier Quality has sent a letter to its supply base stating the expectations and key messages around stamping and records accuracy for these suppliers to communicate to their workforces with a completion date of December 31, 2015. (BCA provided a draft copy of the letter to the FAA for comment and input prior to its release.)
- c. Applicant Compliance Training. Within 180 days of execution of this Agreement, BCA will propose to the FAA a training course for employees on compliance and incorporate any changes requested by the FAA. Promptly following review of this course by the FAA, BCA will make such training mandatory for all BCA engineering employees, and require recurring mandatory training by such employees at least every twenty-four (24) months.

4. Verification.

- a. During 2016 and each year thereafter during the term of this Agreement, BCA will conduct at least [REDACTED] internal audits of each product line and at least [REDACTED] internal audit of each Boeing PC 700 fabrication site. Based on those audit results, BCA will, [REDACTED], conduct risk assessments, and then will adjust future audit frequency and subject matter commensurate with risks identified. [REDACTED]
[REDACTED]
- b. BCA Supplier Quality has added stamping audit criteria to its supplier audits and deployed these criteria across the entire BCA supply base for use during scheduled audits.
- c. All incidences of improper stamping will be investigated and, if substantiated, [REDACTED]
[REDACTED]
- d. The results of these audits and assessments will be provided to the FAA upon request.
- e. When requested, BCA will also submit to the FAA all findings regarding improper stamping, [REDACTED]
- f. Beginning one year after the date of execution of this Agreement, and for the duration of this Agreement, BCA will have no repeat findings of improper stamping, as documented in correspondence from the Boeing Certificate Management Office (CMO). For the purposes of this Agreement, a repeat

finding is an occurrence that should have been prevented by the proper implementation of FAA-approved corrective action. However, when determining whether such repeat stamping constitutes a violation of this Agreement, the FAA will consider all of the circumstances of the stamping, and any BPSM analysis that may be provided by BCA.

5. Alternative Stamping Penalty Processes.

During the term of this Agreement, at BCA's election, certain false stamping matters may be addressed by the process described below. In any case where BCA elects not to use this process, the FAA will utilize its standard investigation and enforcement mechanisms.

- a. Individuals. Immediately upon discovery, and throughout its investigation, of any incident involving false stampings by the same production employee of BCA or one of its suppliers including sub-tier suppliers, BCA will provide the FAA with all information relating to the incident. BCA will also immediately provide the FAA, upon written request, with the names and, to the extent permitted by applicable privacy laws, home addresses of individual employees suspected of such stampings. Nothing in this Agreement affects the FAA's authority to take enforcement action for such stamping against an individual employee or to refer such matter to authorities with criminal jurisdiction for investigation and prosecution.
- b. Company.
 - (1) Investigation and Correction Period. In order to provide BCA with time to investigate, determine, and correct the root causes and conditions leading to false stamping by employees of BCA or one of its suppliers, the FAA will, in addition to the forbearance involved in the normal voluntary disclosure processes, abstain during the first two and one-half years of the Agreement from initiating a civil penalty against BCA for any such stamping incident by an individual employee regarding the same certification on the same job that was identified during or prior to the first two and one-half years of the Agreement, so long as the stamping incident does not fall within one of the exceptions in the Exceptions paragraph below.
 - (2) Limits on Company Liability for Repeated Acts of One Employee. The parties agree that, during the five (5) years of the Agreement, all cases involving false stamping by the same employee of BCA or one of its

suppliers making the same certification on the same job, shall be treated as follows, so long as the stamping does not fall within one of the exceptions in the Exceptions paragraph below.

- (i) Expedited Process. After the normal LOI and response process, representatives of the FAA and BCA shall meet to discuss the sanction for the false stampings.
- (ii) Liquidated Penalty. After said meeting, the FAA will notify BCA of the liquidated penalty, which shall not exceed the amounts set forth in the following table. These amounts are separate from the deferred penalty under this Agreement. BCA shall pay the FAA this liquidated amount, electronically, within 30 calendar days.

Number of False Stampings	Minimum Civil Penalty	Maximum Penalty
1-10	\$18,750	\$100,000
11-1000	\$100,000	\$1,000,000
1001-2500	\$500,000	\$2,000,000
>2,500	\$2,000,000	\$5,000,000

- c. Exceptions. The relief provided to BCA in the two paragraphs above does not apply if the stamping:
 - (1) Was caused wholly or in part by a failure to properly apply FAA-approved corrective action; or
 - (2) Was itself a cause, in whole or in part, of an airworthiness directive (AD); or
 - (3) Was the result of pressure from another employee with apparent or actual authority to direct the employee.

H. Quality of Submissions.

- 1. **Certification Plans and Compliance Deliverables.** During 2016, at least [REDACTED] ([REDACTED]) percent of all Certification Plans that BCA submits to the FAA (not including the ODA) for the first time (“first pass”) will be considered to be “first-pass quality.” For the purpose of this Agreement, “first-pass quality” means

acceptable to or approvable by the FAA without material deficiencies and does not include contingent approvals. During 2017, at least [REDACTED] () percent of such submittals will be considered to be “first-pass quality.” During 2018, 2019, and 2020, at least [REDACTED] () percent of such submittals will be considered “first-pass quality.” Also, during 2016 and 2017, at least [REDACTED] () percent of all Compliance Deliverables that BCA submits to the FAA (not including the ODA) for the first time will be considered “first-pass quality.” During 2018, 2019, and 2020, at least [REDACTED] () percent of such submittals will be considered “first-pass quality.”

- a. All data and chart criteria will be agreed to between BCA and FAA, hosted on a shared access location, assembled by BCA, and will identify the quality and effectiveness of certification plans and compliance deliverables.

2. **Service Information Supporting Planned ADs.** During 2016 and 2017, BCA will achieve, on an annual basis, at least [REDACTED] () percent “first-pass quality” of the service information supporting planned and existing ADs. During the three (3) subsequent years of this Agreement, BCA’s percentage achievement of this measure shall not be less than [REDACTED] (), [REDACTED] (), and [REDACTED] () percent, respectively. Beginning in 2016 and each year thereafter for the duration of this Agreement, at least [REDACTED] () percent of the service information supporting planned and existing ADs that are submitted by BCA to the FAA after initial rejection (“second-pass”) will be of sufficient quality as to be approvable by the FAA.
3. **Corrective Action Documents.** Beginning in 2016 and each year thereafter for the duration of this Agreement, for all documents described in paragraph F.1.a other than Safety Issues, at least [REDACTED] () percent of BCA’s responses will be of “first-pass quality.” For Safety Issues, at least [REDACTED] () percent of BCA’s corrective action and recovery plans submitted to the FAA during 2016 and each year thereafter will be considered “first-pass quality.”

I. Timeliness of Submissions.

1. **Certification Plans and Compliance Deliverables.** BCA will provide the FAA with at least the minimum standard flow times in Appendix 5. During each year of this Agreement, at least [REDACTED] () percent of all Certification Plans that BCA submits to the FAA will allow the FAA the agreed-upon standard flow. During 2016, at least [REDACTED] () percent of all Compliance Deliverables that BCA submits to the FAA will allow the FAA the agreed-upon standard flow. During 2017, this required percentage will be at least [REDACTED] () percent, and in

2018, 2019, and 2020, at least [REDACTED] () percent. Beginning January 1, 2016, and for the duration of this Agreement, BCA will submit at least [REDACTED] () percent of each month's proposed revisions to these documents in time to allow the FAA at least the standard flow times in Appendix 5.

- a. All data and chart criteria will be agreed to between BCA and FAA, hosted on a shared access location, assembled by BCA and will identify the timeliness performance of certification plans and compliance deliverables.

2. Service Information Supporting Planned ADs. During 2016, BCA will submit at least [REDACTED] () percent of service information (SI) supporting planned and existing ADs within the time period agreed upon in each SI's End-to-End Agreement. During 2017, at least [REDACTED] () percent of such information shall be submitted within the time period agreed upon in each SI's End-to-End Agreement. During 2018, 2019, and 2020, at least [REDACTED] () percent of such information shall be submitted within the time period agreed upon in each SI's End-to-End Agreement. If any SI is rejected, the SACO or LAACO, as appropriate, will jointly re-plan a resubmittal date with BCA and BCA will submit an approvable SI within that time at least [REDACTED] () percent of the time, beginning in 2016 and each year thereafter for the duration of this Agreement. If BCA and the FAA fail to reach agreement on an End-to-End Agreement for a safety issue, the FAA will specify an End-to-End schedule in a 14 CFR 183.63(d) letter requesting SI to support its planned AD, and use such schedule to calculate BCA's on-time performance.

3. Corrective Action Documents. This paragraph describes the timeliness requirements for BCA's submittal of the items identified in paragraph F.1.a, above, other than LOAs.

- a. During each year of this Agreement, BCA will submit at least [REDACTED] () percent of all corrective action response documents required to be submitted to the Boeing CMO within the deadline identified by the FAA.
- b. During 2016, BCA will submit at least [REDACTED] () percent of all corrective action response documents required to be submitted to the Boeing Aviation Safety Oversight Office (BASOO) within the deadline identified by the FAA. During each subsequent year of this Agreement, BCA shall improve this percentage by at least [REDACTED] percent per year, i.e., [REDACTED] () percent in 2017, [REDACTED] () percent in 2018, [REDACTED] () percent in 2019, and [REDACTED] () percent in 2020.

- c. Boeing will submit all corrective action responses to Part 25 Notifications of Airworthiness Noncompliance in accordance with its ODA Procedures Manual.
 - d. During 2016, BCA will submit at least [REDACTED] ([REDACTED]) percent of all Safety Issue documents within the deadline identified by the FAA. During each subsequent year of this Agreement, BCA will submit at least [REDACTED] ([REDACTED]) percent of all Safety Issue documents within the deadline identified by the FAA.
 - e. A submission subject to this section shall be deemed timely if it is submitted no later than a deadline that is extended by the FAA.
4. For purposes of assessing BCA's timeliness performance under this Section I, delays attributable to FAA actions (including changed requirements or directions, or exceedance of agreed-to turnaround times) will not be counted toward the deadlines established in Section I or Appendix 5.

The following two tables graphically represent BCA's commitments with regard to these Sections H and I. In the event of a discrepancy between the table and the above text, the text controls.

Quality

	2016	2017	2018	2019	2020
Certification Plans	■	■	■	■	■
Compliance Deliverables	■	■	■	■	■
SI for Pl. ADs (1 st Pass)	■	■	■	■	■
SI for Pl. ADs (2d Pass)	■	■	■	■	■
C.A. except Safety	■	■	■	■	■
Safety Root Cause Documents	■	■	■	■	■

Timeliness

	2016	2017	2018	2019	2020
Certification Plans	■	■	■	■	■
Compliance Deliverables	■	■	■	■	■
Service Information – Initial Submittal	■	■	■	■	■
Service Information - Resubmittal	■	■	■	■	■
C.A. to CMO	■	■	■	■	■
C.A. to BASOO	■	■	■	■	■
C.A. for Part 25 N/Cs	Per ODAPM	Per ODAPM	Per ODAPM	Per ODAPM	Per ODAPM
Safety Issues	■	■	■	■	■

J. Audits of BCA Suppliers for Acceptance of Work Performed.

1. As of March of 2015, there were a total of 434 category 1 and 2 parts suppliers for BCA. BCA will develop, submit for FAA CMO approval, and implement a plan to audit at least [REDACTED] ([REDACTED]) percent of these suppliers. These audits will determine whether any of BCA's suppliers are accepting work that is not complete, and whether any such improper acceptance is systemic.
2. BCA's suppliers will be subject to these audits without regard to whether their relationship with BCA is direct or indirect. (Indirect suppliers are those who have a contract with a BCA direct supplier and not directly with BCA.) In addition to the 434 category 1 and 2 parts suppliers, BCA may include in these audits those sub-tier suppliers that are responsible for major components of the build process.
3. BCA will conduct these audits in two phases: an initial audit of [REDACTED] ([REDACTED]) suppliers, and then, after BCA and the FAA assess the methodology and results of those initial [REDACTED] ([REDACTED]) audits, an audit of the remainder of the [REDACTED] ([REDACTED]) percent of BCA suppliers required by this section to be audited.
4. By October 1, 2015, BCA had submitted its plan for conducting these audits to the FAA for approval. BCA's supplier audit plan:
 - a. [REDACTED]
[REDACTED]
 - b. [REDACTED]
 - c. [REDACTED]
[REDACTED]
 - d. [REDACTED]
[REDACTED]
[REDACTED]
 - e. [REDACTED]
[REDACTED]
 - f. Defines:
 - (1) What circumstances will constitute "accepting work that is not complete;"

- (2) What auditing methods and tools Boeing will use to find these circumstances;
 - (3) How BCA will document the audit activity and findings;
 - (4) How BCA will administer immediate corrections;
 - (5) How BCA will conduct root cause analysis, identify common causes and systemic issues;
 - (6) How BCA will implement root cause and systemic corrective actions; and
 - (7) How BCA will follow up to verify corrective action effectiveness and sustainment.
5. BCA will not initiate these audits until after the FAA has approved its supplier audit plan. The FAA may override any part of the supplier plan, including but not limited to its methodology, the suppliers to be audited, or the selected parts.
6. By June 1, 2016, BCA will present to the FAA for agreement:
- a. The results from the initial ■ audits;
 - b. BCA's analysis on whether its risk-based method was either validated or adjusted; and
 - c. Based on the validated or adjusted risk method, BCA's proposal for the identity of the remaining suppliers to be audited, and the method of conducting those audits.
7. By January 5, 2017, BCA will complete the remaining audits.
8. By January 5, 2017, BCA will have identified audit findings and completed root cause analysis on a suitable sample of findings to allow identification of systemic issues and recommended corrective actions.
9. By March 1, 2017, BCA will present to the FAA the results of the audits, root cause analysis, identification of systemic issues and recommended solutions.
10. By June 1, 2017, BCA will present to the FAA a summary of corrective action implementation. This meeting may need to be repeated on a periodic basis until all corrective actions have been implemented or the FAA agrees that review is no longer necessary.

11. If adjustments to this schedule are needed, BCA must present the proposed schedule to the FAA for approval, and include a rationale for the proposed schedule change.

12. The FAA may attend any portion of the audits with suitable prior notice.

K. Sustained Effectiveness of Implemented Letter of Investigation (LOI) Corrective Actions.

To measure whether the corrective actions implemented in response to FAA-issued letters of investigation remain effective, BCA will conduct a follow-up corrective action verification within one year following initial implementation of the corrective action. (This will include an assessment of the corrective actions put in place to address improper stamping issues.)

L. Compliance Reporting.

1. **Method.** Unless otherwise noted, BCA must promptly make the reports noted below in writing, to the manager of the TAD or his or her designee.
2. **On-Demand Reports.** BCA will promptly provide, upon the FAA's reasonable and good faith request, any documentation relating to BCA's performance of the terms of this Agreement.
3. **Annual Comprehensive Reports.** By January 15 of the years 2017, 2018, 2019, and 2020, BCA will produce an Annual Comprehensive Report on BCA's regulatory compliance activities and performance, including the continued effectiveness of the implementation of corrective action, according to each section of the above BCA obligations, during the entirety of the preceding calendar year. BCA will provide this report to its CEO and to the FAA.
4. **Final Compliance Report.** In lieu of an Annual Comprehensive Report for calendar year 2020, by October 15, 2020, BCA will provide a Final Compliance Report to the FAA with BCA's status with regard to the fulfillment of its obligations under the terms of this Agreement.

Final determination of whether BCA has complied with the terms and conditions of this Agreement shall be made by the Administrator of the FAA or his or her designated representative, in accordance with the provisions of Part II, Sections B and C.

Any approvals from the FAA required by this Agreement shall not be unreasonably withheld; and, to the extent such approvals are given after a period of review that

materially impairs BCA's ability to meet subsequent deadlines set forth in the sections above, the relevant deadlines shall be extended to reflect the duration of that period of review.

II. PAYMENT AND DEFERRAL OF CIVIL PENALTIES.

- A.** BCA agrees to pay a civil penalty in the amount of \$12,000,000.00 upon execution of this Agreement. As stated in Part III of this Agreement, the FAA agrees not to pursue the recovery of additional civil penalties against BCA in the pending cases that are the subject of this Agreement.
- B.** In the event that BCA does not meet its commitments under this Agreement, BCA and the FAA agree that BCA shall be subject to additional civil penalties up to \$24,000,000.00. Such potential penalties are deferred, subject to the terms of Part II, Section C herein.
- C.** The FAA will review the reports from BCA required by Part I, Section L, of this Agreement and, using that or other relevant information, periodically and within eight (8) weeks of receiving each Annual Comprehensive Report, will advise BCA whether the FAA is satisfied with BCA's actions to fulfill the company's obligations as of such date pursuant to this Agreement. If the FAA identifies any area in which it is dissatisfied with BCA's performance of its commitments in this Agreement, it will advise BCA in writing of its reasons and provide BCA with twenty (20) business days to respond. In its required response, BCA may request an opportunity to cure any deficiency noted by the FAA. Such request must be in writing and include a plan, description of expected necessary resources, and schedule for accomplishing the cure. The FAA will evaluate BCA's response, including any request to cure. The FAA may approve or reject the request, in whole or in part.
 - 1.** If the FAA rejects the request, in whole or in part, the FAA will notify BCA of its final determination in writing, and in its sole discretion may assess a financial penalty that constitutes a portion of the potential deferred penalty amount set forth in Part II, Section B, in an amount that the FAA reasonably and in good faith determines is proportionate to BCA's performance deficiency relative to its obligations to be achieved as of such date pursuant to this Agreement and the total remaining deferred penalty amount that could be assessed against BCA.
 - 2.** If, however, the FAA approves or modifies one or more of BCA's requested cures, the FAA will evaluate, at times of its choosing, BCA's success in curing its deficient performance. If the FAA determines that BCA's performance is not in compliance with BCA's cure obligation under this Agreement, the FAA will notify

BCA of its final determination in writing and in its sole discretion may assess a financial penalty that constitutes a portion of the potential deferred penalty amount set forth in Part II, Section B, in an amount that the FAA reasonably and in good faith determines is proportionate to BCA's performance deficiency relative to its obligations to be achieved as of such date pursuant to this Agreement and the total remaining deferred penalty that could be assessed against BCA.

- D.** BCA will pay any such penalty amount within thirty (30) calendar days following receipt of the FAA's final written determination. The FAA may assess BCA multiple such penalties for failure to comply with its obligations pursuant to this Agreement, but notwithstanding any other provision in this agreement, the total penalty for any BCA failures of performance that occur between January 1, 2016 and June 30, 2018 shall not exceed fifty (50) percent of the total deferred penalty amount, and the total penalty for any failures of performance that occur between July 1, 2018 and December 31, 2020 shall also not exceed fifty (50) percent of the total deferred penalty amount. Any such penalties assessed will be reasonable, in good faith, and considered in light of the totality of BCA's performance of its several obligations under this Agreement. BCA has no rights whatsoever of administrative or judicial review of or appeal from the FAA's determination and assessment of the amount of the deferred civil penalty BCA shall pay due to its failure to fulfill any obligation pursuant to this Agreement. However, to ensure clarity, understanding, and coordination, the FAA agrees that the FAA's Chief Counsel will be available to discuss, if requested, with Boeing's Vice President and Assistant General Counsel for BCA the rationale for and reasonableness of any proposed penalty for BCA's failure to comply with this Agreement, prior to the FAA's final assessment of such penalty.
- E.** BCA shall pay all civil penalties under this Agreement by electronic funds transfer to the United States of America. The Regional Counsel's office of the FAA's Northwest Mountain Region will provide BCA with written wire-transfer instructions upon execution of this Agreement.

III. OBLIGATIONS OF THE FAA.

In consideration of the agreements and corrective actions set forth herein, and except for such obligations as are created by this Agreement, the FAA hereby waives, releases and will refrain from instituting, prosecuting, or maintaining any civil penalty action arising from the EIRs in the thirteen (13) pending cases referenced above.

IV. MISCELLANEOUS PROVISIONS.

- A. Term.** The terms and conditions of this Agreement will be effective as of January 1, 2016, and will continue for a period of five (5) years from that date, unless extended in a written agreement signed by the FAA's Chief Counsel and Boeing's Vice President and Assistant General Counsel for BCA.
- B. Deviations and Noncompliances Unauthorized.** Nothing in this Agreement allows BCA to deviate from the approved Type Design or Production Certificate processes. Nothing in this Agreement authorizes BCA to commit any regulatory noncompliance or nonconformance to the type design during any portion of the implementation of this Agreement. The approvals given by the FAA in this Agreement are not binding for any purpose outside of this Agreement. BCA will not modify any commitment made in this Agreement by modifying any internal procedure referenced in this Agreement, without prior approval from the FAA.
- C. Scope.** The FAA and BCA agree that all instances of statutory or regulatory noncompliance by BCA that are voluntarily disclosed by BCA about which the FAA does not have knowledge independent of such reports will be evaluated by the FAA in accordance with the FAA's Reporting and Correction Policy, set forth in FAA Order 2150.3B, Compliance/Enforcement Bulletin 92-2, and Advisory Circular 00-58B.
- D. Avoidance of Duplicative Penalties.** The FAA and BCA recognize that regulatory violations by BCA other than the pending cases, may result in additional enforcement action against BCA, provided that the FAA agrees it will not use a failure to comply with a provision in this Agreement, as the basis for both a penalty imposed under this Agreement and an independent, separate enforcement action. In other words, if the breach of the Agreement is also itself a regulatory violation, the FAA will elect to pursue it as either a breach of the Agreement triggering payment of some or all of the deferred civil penalty set forth in Section II, Parts B-D or a regulatory violation, but not both.
- E.** The terms of this Agreement do not apply to any matter concerning BCA's qualifications to hold and exercise the privileges of Production Certificate No. 700 and do not constitute a waiver by the FAA of any statutory responsibility.
- F. No Further Notice.** BCA waives any and all rights to further notice of the allegations contained in the EIRs listed above.
- G. Waiver of Appeal Rights.** BCA waives any right to appeal or otherwise seek administrative or judicial review of this Agreement. The FAA and BCA acknowledge

that by executing this Agreement, BCA and its individual employees shall not be deemed to have waived any constitutional rights, including the right to counsel and legal privileges.

- H. **Enforcement.** The FAA and BCA each reserve the right to judicially enforce any terms or provisions of this Agreement.
- I. **Applicability of FOIA.** The parties agree that any release by the FAA in response to any requests from the public for this Agreement (including its Appendices) or related records will be governed by the Freedom of Information Act (FOIA). Boeing maintains that this Agreement and its supporting Appendices in total or in part contain trade secrets and information that is commercial or financial and privileged or confidential and therefore should be exempt from disclosure pursuant to FOIA requests. Accordingly, the FAA will notify Boeing of any request for public release of the aforementioned documents, and the FAA will consult with Boeing prior to any public release of the documents, or portions thereof, in a manner consistent with the FAA's current FOIA policies, procedures and the applicable law.
- J. **Completeness.** The terms set forth in this Agreement shall constitute a full settlement and release of any and all civil penalties that have been, or could have been pursued against BCA as result of the alleged violations described in the thirteen (13) pending cases.
- K. **No Admissions.** FAA and BCA agree that BCA's execution of this Agreement and payment of any civil penalty amount to the FAA pursuant to this Agreement do not constitute a finding of violation by the FAA or imply an admission of violation or other wrongdoing on the part of BCA. In addition, this Agreement is being entered into for settlement and compromise purposes only, in accordance with Federal Rules of Evidence (FRE) Rule 408 and applicable state rules.
- L. **Implications for Future Cases.** The FAA and BCA agree that the Administrator of the FAA may consider the allegations contained in the pending cases as a finding of violation history for the purpose of any future legal enforcement action arising from violations of the FAA governing statute or the FAA regulations by BCA.
- M. **Own Costs.** Each party to this Agreement shall bear its own costs, including attorney fees.
- N. **Authority.** The representatives of each party signing this Agreement pledge that they are duly authorized to do so on behalf of the Federal Aviation Administration or Boeing Commercial Airplanes.

O. Copies and Counterparts. A photocopy, facsimile or PDF copy of this Settlement Agreement shall have the same force and effect as an original of this Agreement.

P. List Of Appendices. This Agreement contains the following Appendices, which are fully part of this Agreement:

1. SMS Plan.
2. Regulatory Compliance Plan (RCP).
3. BCA Internal Audit Improvements.
4. Boeing Problem Solving Method (BPSM).
5. Standard Flow Commitments.

Abbreviations

This Agreement, including its appendices, may use the following abbreviations:

AD – Airworthiness Directive

AR – Authorized Representative

BASOO – Boeing Aviation Safety Oversight Office

BCA – Boeing Commercial Airplanes

BPI – Business Process Instruction

BPSM – Boeing Problem Solving Method

CMO – Certificate Management Office

COS - Continued Operational Safety

EIR – Enforcement Investigative Report

FAA – Federal Aviation Administration

FAV – First Article Verification

FOIA – Freedom of Information Act

LAACO – Lost Angeles Aircraft Certification Office

LOA – Letter of Acknowledgment

LOI – Letter of Investigation

ODA – Organization Designation Authorization

PSD – Process Specification Departure

Q&M – Quality and Manufacturing

RCP – Regulatory Compliance Plan

SACO – Seattle Aircraft Certification Office

SER – Surveillance Evaluation Record

SI – Service Information

SMS – Safety Management System

SPC – Safety Promotion Center

SQ – Supplier Quality

SRB – Safety Review Board

SRP – Service-Related Problem

TAD – Transport Airplane Directorate

TARAM – Transport Airplane Risk Assessment Methodology

14 CFR – Title 14, Code of Federal Regulations

For the Federal Aviation Administration:


Reginald C. Govan
Chief Counsel
FAA

Dated: 12/17/2015

For the Boeing Company:


Brett Gerry
Vice President and Assistant General
Counsel
Boeing Commercial Airplanes

Dated: 12/18/2015



U.S. Department
of Transportation

Office of the Chief Counsel

**Federal Aviation
Administration**

December 29, 2020

EMAIL

Padraic Fennelly
Vice President and Assistant General Counsel
Boeing Commercial Airplanes
[REDACTED]

RE: 2015 Settlement Agreement – Deferred Penalties

Dear Mr. Fennelly:

This letter constitutes written notice, pursuant to paragraph II.C.1 of the December 2015 Settlement Agreement (the Agreement), of the Federal Aviation Administration's (FAA) assessment of financial penalties for deficiencies in the performance of certain obligations of Boeing Commercial Airplanes (Boeing) under the Agreement.

Upon consideration of the totality of Boeing's performance under the Agreement, the FAA determines to assess a deferred civil penalty in the amount of \$5.4 M. The FAA's determination of this amount is explained below. Boeing's payment of this deferred civil penalty will resolve Boeing's obligations under Section II of the Agreement.

The Agreement contains a total of 12 sections of Boeing obligations. However, in two of those sections, *First Article Verification* and *Audits of BCA Suppliers for Acceptance of Work Performed*, Boeing's obligations largely ended in 2017. Therefore, there were only ten sections of Boeing obligations to occur, and to be assessed, during the pending second half of the Agreement. For these ten sections, the Agreement provides for the FAA to assess a maximum of \$12 M in deferred penalties, which if spread proportionally amounts to \$1.2 M per section.

The FAA's assessment is that Boeing did not meet its obligations in five of those ten sections. The FAA finds that Boeing's ongoing and planned corrective actions and cure plans have not been effective in remedying these performance deficiencies.

The FAA is only assessing penalties for deficiencies in four sections, rather than five, however. Although Boeing performed deficiently in meeting section I.C, *Organization Designation Authorization (ODA) and Internal Auditing System for Regulatory Compliance*, specifically regarding certain instances of undue pressure on ODA Unit Members, the FAA has been

addressing this deficiency via pending enforcement actions outside of the deferred penalty process of this Agreement. In light of paragraph IV.D of the Agreement (*Avoidance of Duplicative Penalties*) and in the exercise of good faith in averting unnecessary controversy regarding that provision's application here, the FAA is not seeking a deferred penalty under the Agreement for this deficiency.

The FAA's thus calculation focuses on a total of four sections of the Agreement for which Boeing's performance deficiencies merit assessing deferred penalties. These sections are I.B, *Regulatory Compliance Plan*; I.G, *Accuracy of Stamping and Other Verifications*; I.H, *Quality of Submissions*; and I.I, *Timeliness of Submissions*. In some of these areas, Boeing's performance regressed, despite planned and implemented corrective actions and cure plans. Multiplying these four sections by \$1.2 M per section would result in a financial penalty of \$4.8 M.

However, the FAA finds that Boeing's shortfalls in one of these sections, *Regulatory Compliance Plan*, were numerous, varied, and called into question Boeing's performance under several other sections of the Agreement. The FAA therefore determines that a penalty greater than \$1.2 M, specifically a 50% increase to \$1.8 M, is warranted for that section. The FAA assesses a \$1.2 M penalty for each of the other three sections.

Accordingly, the FAA finds that a total deferred penalty of \$5.4 M is appropriate. Wire transfer instructions will be conveyed separately. We look forward to Boeing's timely action in accordance with the Agreement.

Sincerely,


Mark W. Bury
Deputy Chief Counsel