Operator

Thank you for standing by. Good day everyone and welcome to the Boeing Company's Second Quarter 2013 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts and media question-and-answer sessions are being broadcast live over the Internet.

At this time for opening remarks and introduction, I'm turning the call over to Mr. Troy Lahr, Vice-President of Investor Relations for the Boeing Company. Mr. Lahr, Please go ahead.

Troy Lahr

Thank you and good morning. Welcome to Boeing's second quarter 2013 earnings call. I am Troy Lahr and with me today are Jim McNerney, Boeing's Chairman, President, and Chief Executive Officer; and Greg Smith, Boeing's Chief Financial Officer. After comments by Jim and Greg, we'll take your questions. In fairness to others on the call, we ask that you please limit yourself to one question. As always, we've provided detailed financial information in our press release issued earlier today.

As a remainder, you can follow today's broadcast and slide presentation through our website at boeing.com. Before we begin, I need to remind you that any projections and goals we included in our discussion this morning are likely to involve risks, which is detailed in our news release and our various SEC filings, and in the forward-looking statement disclaimer at the end of the web presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now I'll turn the call over to Jim McNerney.

W. James McNerney, Jr.

Thank you, Troy and good morning everybody. Let me begin today with the quick update on the ongoing analysis of the 787 incident at Heathrow, earlier this month, followed by an overview of our business environment with some thoughts and another strong quarter of operating performance. After that Greg will walk you through our financial results and outlook.

As all of you know, the safety of our passengers and crew members who fly on Boeing airplanes is our highest priority. While we are limited in what we can say publicly by the rules of the investigation, we are working closely with the UK Air Accidents Investigation Branch or AAIB, and other parties to fully understand the incident, and to address recommendations in the AAIB's

Interim Report regarding the fixed Emergency Locator Transmitter or ELT, a component which is widely used across the industry and has been for number of years on many different aircraft types.

In anticipation of planned action by the FAA and other regulators in response to the AAIB's recommendations, we have provided customers instructions for the proper inspection and/or temporary removal of the fixed ELT's. While the AAIB's interim report also noted that the history of this unit across the global airplane fleet suggest that an event of this sort would be extremely rare, we agree that these are reasonable precautionary measures to take while the investigation continues, in sum we believe good progress has been made in addressing this issue and we remain highly confident in the future of the 787 program and the integrity, safety and performance of the airplane.

With that let's turn to the business environment on Slide 2. Global customer demand remains strong for our fuel efficient and value creating commercial airplane family and that is evident in the continued vigorous order activity we are seeing. During the second quarter, we booked 481 net orders, which increased our record commercial airplane backlog to nearly 4,800 airplanes worth $339 billion.

Our customers continue to replace older airplanes in favor of new ones that offer compelling economics and increased fuel efficiency. Deferral requests remain well below the historical average and request to accelerate deliveries continue at a healthy pace. We continue to see relatively balanced demand geographically and our backlog remains evenly split between airplanes used to support traffic growth and fleet replacement.

Passenger traffic trends are healthy and have grown even stronger in the past few months. While we continue to see near-term pressure in the cargo market, we are pleased with the recent 774 freighter ordered activity, highlighting the superior value proposition of our airplane and its competitive position in the market.

Strong customer interest in our future new airplanes has fully affirmed our product strategy, and the market leading position it has earned us. Our airplane family has produced – provide the most comprehensive value in the market for the product strategy that is customer driven, customer focused and customer generated and touches every market segment.

Last month, we launched the 787-10 with 102 orders and commitments, including 50 firm orders from five of the most prominent customers in the industry. The -10 further strengthens our unmatched twin-isle lineup and leverages prior technology investments. It is a win-win approach that allows us to provide our customers an airplane with unparalleled economics, while minimizing business risks to deliver increased shareholder value.

The business case for the 777-X is maturing as plan, as we gain further insights from our customers and develop our design and production system strategies, we continue to target the launch for later this year and entry into service for the 777-X around the end of the decade.

Airline interest in our new fuel efficient 737 MAX remain significant as we now have booked more than 1400 cumulative orders to date and have effectively bridged production from the NG to the MAX.

Today 737 airplane continues to attract strong customer interests with performance that exceeds the competition in their segments. We remain on track to increase 737 production to 42 per month in the second quarter of next year. Further, we are positioned to match production with additional demand as our customers require it.

Turning to Defense, Space & Security the U.S. fiscal year 2014 budget deliberations are well underway following the release of the President's budget request in April. While it's still early in the congressional process the Defense and space mark-ups appear neutral to Boeing at the top level. That said, neither the President's request nor the congressional bills reflect sequestration level spending with us.

We remain concerned about the impact that sequestration targets will have in our customers, military readiness and the industrial base. Within this context, our relative strength stems from a portfolio that is reliable, proven, affordable that is being delivered on budget and on schedule.

Despite budget pressures, growth is still emerging in those areas we have been targeting with investment and innovation, such as commercial derivatives, space, unmanned systems, intelligence, surveillance and reconnaissance and cyber security. Growth in international markets continues to help us mitigate domestic market pressures.

International Defense space and security business represented 23% of our revenue during the quarter and remains approximately 40% of our current backlog as we continue to expand our share in addressable international markets.

We also continue to strengthen our competitive position in U.S. and international Defense markets by driving further efficiency and productivity through our long-running market-based affordability effort and our partnering for success initiative that we began last year.

As many of you recall partnering for success is a long-term team oriented approach that examines opportunities across the supply chain in design, production and support to drive significant improvements in quality, flow and efficiencies. It is an enterprise wide one Boeing effort, responding to customer demands for increased productivity and lower costs in our products and services.

We are pleased with the initial response from numerous suppliers that recognize the growth opportunity they will have working with us and we expect the full benefits to our customers and suppliers to accrue over time inline with the long cycle nature of our business.

Now let’s move to a summary of the second quarter on Slide 03. Both businesses reported strong results during the quarter, as we generated healthy revenue, higher operating margin, and significant operating cash flow.

Revenue at commercial airplanes was $13.6 billion and operating margin grew to 10.7%, resulting from lower R&D, higher volume, and strong program execution. Marking our highest output level in nearly 15 years, we delivered 169 commercial airplanes in the second quarter including 16, 787s.

During the quarter, we completed all of the 787 battery system enhancements on previously delivered airplanes, and returned the full fleet to service. 787 production is progressing smoothly at a rate of seven per month and we remain on track to increase the rate to 10 per month by year-end.

With 787-9 progressing through final assembly, we’re now focused on achieving first flight later in the year, and production remains on track to support the first scheduled customer delivery next year.

Our discipline gated development process has been instrumental in the successful development of the airplane. The same process allowed us to accelerate the expected 787 MAX entry into service and is also being applied to other programs.

Turning to the Defense business, Defense Space & Security generated revenue of $8.2 billion in the second quarter, and increased operating margin, and operating profit. Numerous important contract awards were captured during the quarter including, five commercial satellite orders and a strategic international helicopter support contract.

We also finalized Chinook, and Osprey Multiyear contracts that totaled more than $10 billion. Noteworthy program milestones achieved during the quarter included the successful test fights for Phantom Eye, EMARS and our

Hypersonic X51. We also began assembly on the first KC-46 Tanker, in partnership with the U.S. Air Force, we successfully conducted the critical design review on the KC-46 Tanker program in July, which is a major milestone conducted well ahead of the contract schedule.

During the quarter, we delivered the first of 15 CH-147F Chinook helicopters to the Royal Canadian Air force and delivered for launch the sixth U.S. Air Force Wideband Global SATCOM Satellite. In summary, our team delivered another strong quarter of financial results in both businesses, captured orders totaling $40 billion made good progress on our partnering for success and other productivity initiatives and as Greg will discuss returned increase valued to shareholders through share repurchase and dividend

Now I will turn it over to Greg to discuss our financial results and our guidance, Greg.

Greg Smith

Thanks Jim and good morning. Let's turn to the Slide 4 to discuss the results for the quarter. Second quarter revenue increased 9% to $21.8 billion driven by strong commercial airplane deliveries. Core operating margins increased to 9.3% in the quarter primarily driven by higher commercial deliveries, lower R&D and solid productivity gains at both businesses.

Core earning per share increased 13% to a $1.67 a share in the quarter on higher revenue and continued strong operating performance, again in both commercial airplanes and the Defense business.

So let's discuss commercial airplanes now on Slide 5. For the second quarter, our commercial airplane business reported revenue of $13.6 billion on a 169 airplane deliveries and strong operating margins of 10.7%.

Higher commercial airplane operating margins were driven by increased 737 and 777 deliveries, strong core operating performance and lower R&D partially offset by the dilution of higher 787 deliveries in the quarter. Gross inventory for the company included $30.3 billion related to the 787 program, an increase from the second quarter of approximately $1.5 billion.

This increase was primarily driven by higher inventory in support of the planned production rate increases later in the year and the introduction of the 787-9 program. Included in the working process inventory are the deferred production costs. The deferred balance for the 787 program was $18.7 billion at the end of the second quarter and includes approximately 64 airplanes still in process.

The deferred production balance is still expected to peak at slightly over $20 billion and then decline as the program achieves the planned rate of 10 per month and stabilize at that level. The launch of the 787-10 did not result in any change in the 787 accounting quantity, revenue or cost estimates during the second quarter, although we do expect the 787-10 aircraft to be incorporated in these estimates later in the year as we firm up customer orders.

Commercial airplanes captured $28.7 billion of orders during the quarter, and increased backlog to a new record of $339 billion or 4,757 aircraft. Customer demand for our game-changing fuel efficient airplanes remains strong, as illustrated by the additional 246, 737 MAX orders and 50 787-10 orders in the quarter.

Turning now to Defense, Space & Security results in Slide 6. Second quarter revenue for our Defense business was $8.2 billion and operating margins grew to 9.5% again driven by strong core operating performance across the business. International customers accounted for 23% of our Defense revenue in the second quarter and we continue to drive towards our goal of 30% of revenue going forward.

Our focus on affordability continues as we remain committed to our market-based affordability efforts, we've already captured over $3 billion in savings. We're on track for further lowering our cost structure in an effort to increase productivity and strengthen our competitive position in this challenging environment.

Revenue at Boeing Military Aircraft was $3.9 billion in the second quarter, primarily driven by lower F-15 and AEW and C volume. Operating margins was 9.6% in the quarter. Network & Space System revenue of $2 billion increased 5% primarily driven by improved volume on commercial satellite and the Space Launch Systems program. Operating margin is 6.7% in the quarter.

Global Services & Support had second quarter revenue of $2.2 billion and operating margins of 11.8% on strong performance at our integrated logistics business. Defense, Space & Security reported a solid backlog of $71 billion and International business was 37% of our current backlog representing customers outside the United States.

Turning now to Slide 7; the BCC net financing portfolio declined to $4.1 billion on normal runoff that exceeded new aircraft volume, unallocated expense from our core operations of $177 million was higher primarily due to an increase in deferred compensation expense driven by our higher stock price and overall stock market performance.

Turning now to cash flow on Slide 8. Operating cash flow for the quarter was $3.5 billion. The strength of our cash flow was driven by improved performance and favorable timing of receipts and expenditures in the quarter.

As a result, our strong performance and execution of our balance cash deployment strategy, we've repurchased 10.2 million shares for $1 billion in the quarter and we also paid a 12% higher dividend to shareholders compared to the same quarter last year. As we continue to execute to our plans, we remain focused on investing in key growth areas of our business and returning cash to shareholders.

Moving to cash and debt balances on Slide 9. We ended the quarter with over $14 billion of cash and marketable securities. Debt levels increased slightly to support aircraft financing at Boeing Capital, and our cash position continues to provide a sound liquidity and positions us well going forward.

Turning now to Slide 10 to discuss our outlook for 2013. Due to the strong performance in the first half and the outlook for the balance of the year, we're increasing our 2013 core earnings per share guidance to be between $6.20 and $6.40 per share. Revenue guidance for the year increased $1 billion to now be between $83 billion and $86 billion reflecting higher expected volume driven by international revenue and mix at our Defense business. As a result, Defense revenue guidance increased to be between $31.5 billion and $32.5 billion.

Commercial airplane revenue guidance of $51 billion to $53 billion remains unchanged and continues to reflect higher expected deliveries in 2013. We still expect 787 deliveries to be greater than 60 for this year and deliveries relatively evenly spread over the remaining two quarters.

Total commercial airplane deliveries remain on track to be between 635 and 645 for the year.

Boeing Commercial airplane operating margin guidance is increased to be greater than 9.5% on improved performance and lower R&D. With our continued focus on development program execution, we now expect total research and development spending for 2013 to be approximately $3.3 billion, a $100 million lower than our prior guidance. Due to ramp up of 737 MAX and 787-10 investments, we do expect second half of 2013 R&D spending to be slightly higher than the first half.

Partially offsetting the favorable performance of the businesses and our higher unallocated cost and other costs, total core unallocated expenses now forecasted to be approximately $600 million for the year driven largely by deferred compensation expense again due to recent share price and stock market increases.

Furthermore, our tax rate is now expected to be approximately 31% driven primarily by lower than expected manufacturing tax credit in 2013. Operating cash flow before pension contributions guidance for the year is unchanged to greater than $8 billion. We continue to plan to make a $1.5 billion discretionary pension contribution in the third quarter.

Overall, second quarter performance was strong at both businesses as we further improved productivity, continue to execute on our new airplane development program, successfully navigated the difficult Defense environment and efficiently deployed cash to shareholders. We expect this strong operational performance to continue throughout the balance of 2013.

With that, I'll now turn it back over to Jim for some final thoughts.

W. James McNerney, Jr.

Thanks, Greg. With a strong first half behind us and a successful launch of the 787-10, we remain committed to the goals we initially set for 2013. They include continued conversion of our record backlog into deliveries through strong core operating performance that allows us to return cash to shareholders while investing wisely in our products, technologies and people to sustain our growth and competitiveness.

Our priorities going forward remain clear. The profitable ramp up in production of our commercial airplane programs executing on our commercial and Defense development programs, driving productivity, affordability and safety throughout the enterprise, continuing to strengthen and reposition our Defense business with investments in growth areas amid further international expansion, and importantly providing increasing value to both our customers and our shareholders as we do it.

Now we would be glad to take any questions you might have.

Question-and-Answer Session

Operator

(Operator Instructions). And first from the line of Joe Nadol with JPMorgan. Please go ahead.

Joseph Nadol III – JPMorgan

Thanks, good morning everyone.

W. James McNerney, Jr.

Good morning Joe.

Greg Smith

Good morning, go ahead.

Joseph Nadol III – JPMorgan

I would like to ask you about, a little bit more about 787 productivity and the learning curve, understanding that the -9 had an impact on your results in that quarter, the introduction of the -9. Is there any way to strip out just the -8 to think about what's going on there from a unit cost standpoint relative to the last couple of quarters. And then on deferred production costs, Greg I heard you say reiterate that slightly over $20 billion is where you expect it to peak, it's $18.7 billion at the end of Q2 if you add another $1.6 billion next quarter, you could be over that level. So any more color you can give on the profile when you think it will peak, what quarter, even and where above $20 billion, or is it $21 billion, or is it $23 billion that sort of thing. Thanks.

Greg Smith

Is that it Joe. Now let me on the unit cost progress to your point we certainly had 787-9 in there and we also had an inventoried build-up as we plan for as you know getting to 10 a month by the end of the year. So that's what you're seeing there in the inventory build-up quarter-over-quarter. If you strip that out, you would see the normal progress that we've seen on the unit cost basis on the -8 and I think if you heard me say before, if we kind of just go back to unit eight to around unit 100 we've seen anywhere from 55% to 60% reduction.

And so we're continuing to see progress on a unit-by-unit basis as the production system stabilizes and we get ready for the next rate break, we're also seeing improvement on the overall kind of operational metrics around traveled work, improvements in quality and reductions in flow time. So I would say it's progressing very well and again if you stripped out those unique items you continue to see the progress there on a unit basis.

With regards to deferred production balances going forward, we're still comfortable with that peaking at slightly over $20 billion and again think of that as we reach 10 a month and stabilize at that level, that's when we'll see that turn which roughly is about early 2015 timeframe, mid 2015 in that area, but the planned inventory build-up obviously is in the support of our rates as we get again prepared to go to 10 a month, but that kind of basically how you'll see that profile going forward.

Joseph Nadol III – JPMorgan

So clearly deferred production build per quarter will at the slow dramatically before the peak?

W. James McNerney, Jr.

Yeah, don't forget you got increased deliveries as well. So the increased deliveries are helped offsetting the growth as we build-up for rate further in the year.

Joseph Nadol III – JPMorgan

Okay. Thank you.

W. James McNerney, Jr.

You're welcome.

Operator

Next we'll go to Doug Harned with Sanford Bernstein. Please go ahead.

Douglas Harned – Sanford Bernstein

Hi. Good morning.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning, Doug.

Douglas Harned – Sanford Bernstein

On your margins at BCA, so you took those up to greater than 9.5% presumably now you have the full bridge of a 737NGs in your accounting block, which I would expect would be a little more pressure on price and you've got the early MAX production in there as well, also I would expect similar pressure on margin.

So can you talk about how you've kept margins up or even taken margins up here given that trajectory, and as you look forward and when this block moves out to later production of the MAX? Should we expect those to be higher margin airplanes, which it would actually help this number?

W. James McNerney, Jr.

Well, to answer you first question Doug. It's just back to basics on improving productivity across the operation and as you know on the 737, they have continued to come up with ways to do that, whether it's the horizontal wing line or other opportunities within the final assembly area, and then partnering for success and working for with the supply chain.

So all of that in combination really kind of helping us navigate through those early blocks on the MAX and later blocks or later airplanes on the NGs, and that's going to be the focus going forward. And again it ducktails rate into the partnering for success, and the goals that we established internally on year-over-year productivity gains working lean plus and working flow time quality et cetera, but the program is obviously performing very well as it stabilize at 38 a month, we're at record low shortages and the core operating metrics are performing extremely well at those levels and getting ready to go to 42. So overall, it's just very solid disciplined focus on productivity on all aspects of cost.

Douglas Harned – Sanford Bernstein

So have you incorporated assumptions around partnering for succuss into this, my understanding was that you had been looking more at normal productivity improvements and that partnering for success was potential upside to your margin here.

Greg Smith

Yeah, that's how we are playing it out Doug, that's how we are working it. What you are seeing up to now is the productivity gains that we see in the factories and within the supply chain, but then on top of that working partnering for success movement forward.

Douglas Harned – Sanford Bernstein

Okay thank you.

Greg Smith

You're welcome.

Operator

The next question is from Rob Spingarn of Credit Suisse. Please go ahead.

Robert Spingarn – Credit Suisse

Good morning.

Greg Smith

Good morning.

W. James McNerney, Jr.

Good morning,

Robert Spingarn – Credit Suisse

Greg, just I wanted to clarify something in your answer to Joe's question on Defense. On the unit deferred given the fact that there is not that much left to build, should we expect to step down in unit deferred in this next quarter, I guess based on the mix of -9 and -8s or when should we return back to step downs. And then Jim, I wanted to ask you about Defense, obviously you've raised you BDS revenue targets for this year, it sounds like that's driven by international, but given the late timing on the $37 billion in cuts, which you referenced in your monolog, is it simply that we just don't see that this year and would you expect that to develop into a headwind next year, I'm sure you have got guys working on this and then of course we might have another $52 billion behind it. So how do you think about revenues from a slightly longer term trajectory since we really haven't seen any impact yet? Thanks.

W. James McNerney, Jr.

Yeah, I will answer the second part first, it's a good question. I think you're right, the upside we've seen this year is for two reasons one: we've gotten after our cost very aggressively and very early, our market based affordability initiatives, the Dennis has been driving over the last couple of years, and secondly, mixing up on international orders which our company is in many ways uniquely positioned to do, given our global footprint, which is a shared enterprise effort between our Defense and Commercial business.

And so – but I think we've seen some impact of sequestration, but we have not begun to see most of it yet. And so we remain cautious, we think there is more to come on sequestration, more than we've seen so far, we are prepared for it margin wise anticipating some pretty draconian kinds of scenarios and we are not out of the woods at all, we are just entering the woods.

Robert Spingarn – Credit Suisse

Okay.

W. James McNerney, Jr.

And then Greg.

Greg Smith

Yes, yeah.

Robert Spingarn – Credit Suisse

Yeah, Greg just on deferred.

Greg Smith

On your deferred per unit, you are going to see some bouncing around a little bit in the third and fourth quarter. Again, as we introduce more -9s into the line, and come down back learning curve and then get to the 10 a month and stabilize at that level, but again after that you are going to see the normal progress on equivalent unit cost going forward. But I would consider a temporary disruption here again as we have the blanks firing into the line in the -9 making its way through the production system, which by the way is making great progress through our factories and progressing very well.

Robert Spingarn – Credit Suisse

That's helpful. Thank you, [Bob].

W. James McNerney, Jr.

You're welcome.

Greg Smith

Yeah, you're welcome.

Operator

And next go to Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr – Cowen & Company

Thanks so much. So your commercial margin was 70 bips lower than the first quarter, even though R&D was lower and I know mix was really not for you with more [87] but it looks like the margin on the 777 and 37 were down sequentially and can you also comment on the level of period expenses versus the first quarter? Thank you.

W. James McNerney, Jr.

Yeah, Cai, margins were installed in the quarter, the biggest drivers in there is the dilution on of the 787 deliveries within the quarter versus Q1 that's the biggest differentiator. On a period expense stripping our R&D pretty much flat quarter-over-quarter.

Cai von Rumohr – Cowen & Company

Got it. And then can you comment on the -9, you've obviously had very strong demand there and your thoughts about when and if you might raise the production rate above 10 or would you have to see to do that and given that it should be substantially more profitable than the other 8, at what point could that encourage you to raise the equivalent rate on the program?

Greg Smith

I think assuming at that one Cai, there is no question; number one priority is to get to 10 a month and do it well. And we're well on our way to executing that. But there is pressure beyond that to raise production rates. And it is led by demand for -9s and -10s. So the mixing up into larger, longer range models is correct. And mixing up on pricing and therefore profitability is also it wants to move in that direction as well.

So I think we'll make the call ongoing beyond 10, once we've settled in at 10 and have a very firm foundation. And I think if I were a betting man, I think that the marketplace demand could move us in that direction over time and that would all be good from a volume and profitability standpoint.

Cai von Rumohr – Cowen & Company

Thank you very much.

W. James McNerney, Jr.

Okay, Cai.

Operator

And next we'll go to Sam Pearlstein with Wells Fargo. Please go ahead.

Sam Pearlstein – Wells Fargo

Good morning.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning.

Sam Pearlstein – Wells Fargo

Just wondering if you could talk about cash a little bit just because even if you deploy 80% plus of your free cash to buybacks and dividends, that $14 billion you have in the balance sheet is going to continue to grow. So I guess can you just talk a little bit about how you're thinking about that cash? What would make that cash balance come back to maybe a single-digit billions and where acquisitions? Why don't we see more than $1.5 billion to $2 billion in buyback this year? Just talk a little bit about that.

W. James McNerney, Jr.

Yeah. Well, Sam as I think I mentioned before, think of our deployment this year is really be in the start. As we've de-risked the company and executed to our production rates, navigating through the challenging BOD environment. We've started to execute the deployment plans at the repurchase of dividend.

So I would view that as a start. It's certainly something that we're continuing to monitor and look at going forward as we continue to make progress at BCA making our rate breaks and executing in Defense. So the 80% is plus or minus it's going to vary over time and we're going to continue to look at that as we have on a very active basis and deploy our cash going forward in a balanced fashion as we've described with certainly returning cash to shareholders being a big priority for us. So I would say stay tuned, we're going to continue to execute, we're going to continue to focus on deploying and as we make progress throughout the year, we'll make adjustments accordingly.

Operator

Next question is from Carter Copeland with Barclays. Please go ahead.

Carter Copeland – Barclays Capital

Hi, good morning gentlemen.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning.

Carter Copeland – Barclays Capital

Good morning. Greg just a clarification and a question on your comments on deferred production, I thought those figures included in process units or projected cost on partial units. So I wasn't quite sure how the inventory build ahead of the production ramp would influence those numbers. So just mechanically if you can clarify that for me, I would appreciate it. And what I really want to ask is about the 787 margins and your comment on the -10 sort of lack of impact on the program financials this quarter. Is it your expectation that the inclusion of the -10 will have a material impact on the program margin or the accounting quantity and I guess to that point can you clarify what the right measure of materiality might be?

Greg Smith

Yeah. So I think to answer your first question, certainly -9 and then think of it as investments in inventory to de-risk as we get up to 10 a month. So that's really what's driving that and as I said, if you strip that out you would see progress on the -8 as we have seen. So on a unit-by-unit basis, we are continuing to see improvement there and again I would think of this as being temporary as we come down the learning curve on the -9 work through flight that ramp back up in production and deliveries and you will see us make progress through that period.

With regards to the -10 just like we have with other derivative programs as we make progress on firming up orders. We'll look at extending the blocks, the accounting blocks, I see us doing that. Again, it depends on how we firm up our orders, but sometime later this year, and that would be favorable to the booking rate and but at the same time we would also include the up front investments on the -10. So net-net would be an improvement.

Carter Copeland – Barclays Capital

But that's a 2013 decision on 2014?

W. James McNerney, Jr.

Yeah, it depends on how the orders progress, that they progressed as they have I see it later this year.

Carter Copeland – Barclays Capital

Great, thank you.

W. James McNerney, Jr.

You’re welcome.

Operator

And next we’ll go to Howard Rubel with Jefferies. Please go ahead.

Howard Rubel – **Jefferies**

Thank you very much.

Greg Smith

Good morning, Howard.

Howard Rubel – **Jefferies**

Good morning, gentlemen. Thank you.

W. James McNerney, Jr.

Hey Howard.

Howard Rubel – **Jefferies**

It’s very clear you’ve made a lot of progress introducing the 787 into the market, yet you’ve only delivered a high teens number to date with the target of over 60. Greg, there’s a lot of airplanes on the tarmac. How - why are we not yet at a plane where we would probably see more than those 60 delivered?

Greg Smith

Well, I think Howard when you kind of – you look at the balance of the year and there is airplanes on the tarmac, some of those are still have to require going through changing part and some of them are coming out of it. So if you look at the deliveries for the year, about 15% of those are coming out of changing part and then about 20% coming out of Charleston, 20% from Charleston and the balance out of Everett.

So certainly in July, here and then moving forward you’ll see deliveries picking up through the balance of the year. But we’re still comfortable with about 60, Howard, and certainly if we can do more we will, but the team is very focused on delivering the units that are committed through the balance of the year.

Howard Rubel – **Jefferies**

Fine, thank you very much.

Greg Smith

You're welcome.

Operator

And we'll go to Rob Stallard with Royal Bank of Canada. Please go ahead

Robert Stallard – Royal Bank of Canada

Thanks very much. Good morning.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning.

Robert Stallard – Royal Bank of Canada

Jim, just a quick question on the 737, your competitors so far achieved a better market share than you, on a three engine variant. I was wondering if you think it's realistic to expect a 50% market share at some point in the future for your 737 MAX and how you expect to get that? Will that require more aggressive pricing or perhaps raising the narrow-body rate a bit further?

W. James McNerney, Jr.

I think I understand where the question comes from. I think the answer is pretty straightforward, however. They introduced their new narrow-body year and half before we did. I think if you look at relative orders along a similar point in time, you would see that we're at or slightly ahead of where they were as we penetrate our customer base. We're both producing at roughly the same rate as I said in my remarks we're ready to go higher if the market demand is there.

So I fully anticipate about a 50/50 when it all sorts out, when we're at equal points in customer penetration, when we're both fully ramped up to rates that we targeted. And as I also mentioned in my remarks, we're moving the schedule actually early initial deliveries to the left. I mean we're going to be in pretty good shape here. So I would be very surprised if it was any noise level around 50/50.

Where we are going to end up with a higher market share, however, is in wide-bodies. I think if you look at the line-up, you look at current order trends, if we added up at a Kentucky Vintage 50/50 in narrow-bodies, I think the difference maker overall will be in wide-bodies where we've got five relatively new offerings to their three when they get the A350 of variants introduced, and on top of an already strong wide-body position I feel very bullish. I don't want to give you a specific market share number or targeted wide-bodies, but I think it's going to be greater than our competitors.

Robert Stallard – Royal Bank of Canada

Yeah. Just a follow-up on the narrow-bodies though based on your view that it's timing, should we therefore realistically expect maybe a few hundred more MAX orders over the next 12 months or so?

W. James McNerney, Jr.

Well, I think if you follow my logic, yes.

Robert Stallard – Royal Bank of Canada

Great, thank you.

W. James McNerney, Jr.

Yeah.

Operator

And we'll go to Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ronald Epstein – Bank of America Merrill Lynch

Yeah. Good morning.

W. James McNerney, Jr.

Good morning.

Ronald Epstein – Bank of America Merrill Lynch

Just following up I think on Rob's questions, follow on question and I suggest, when you mentioned that you're prepared to meet customer demand if that arises for more than 42 a month, translation is a company seriously considering going through whatever 45 a month and then what timeframe? And then that with a question kind of there is some piece, about some additional piece of that, then how do we think about the transition to the MAX from the NG if you are at a higher rate?

W. James McNerney, Jr.

Well, I think the spirit in which I made that comment was we will get the 42 next year. We will go through a transition of NGs to MAXs during a period, not soon thereafter that. And I think at that stage that most likely and I don't want to – I don't want to offer guidance here, I mean I'm just saying that is we're assessing market demand, we're seeing sometime around then or after then pressure possibly as the world economy holds in all the rest of the variants are in place to go higher. And we can do that – rate breaks are never easy, but we see a clear path execution there. I mean we are assessing the scenarios right now how and where we would do that.

Ronald Epstein – Bank of America Merrill Lynch

Okay and just a natural follow-on.

W. James McNerney, Jr.

Sure.

Ronald Epstein – Bank of America Merrill Lynch

Maybe very high level management question, is market share a proper metric to think about when you're thinking about this market. I mean ultimately Jim right, it's a duopoly of source maybe sort of different flavor duopoly but duopoly is market share really what anybody should be thinking about? I mean do that could potentially have negative implication?

W. James McNerney, Jr.

Sure, I think it's a mistake, to only think about market share, when you think about this business. I think because of what you've alluded to, you either can take too much risk, if you're reaching too high or if you go too low, you can get off a learning curve relative to your competition. So the way to think about market share is there is a corridor you want to be in and then within that corridor, you want to have a better product produced at a lower cost, and so operating margins become the metric and cash flow becomes the metric.

So think about market share as a corridor you want to be in, after that it's all about operating performance.

Ronald Epstein – Bank of America Merrill Lynch

Great. Thank you very much.

W. James McNerney, Jr.

You're welcome.

Operator

Your next question is from John Godyn with Morgan Stanley. Please go ahead.

John Godyn – Morgan Stanley

Thanks for taking my questions guys. Jim and Greg, I hope you made some positive comments on partnering for success and we've heard from other companies that have already reported earnings that the tempo of some of the partnering for success conversations and activity continues to quicken. So I was hoping you could just elaborate on what's changing incrementally from your perspective if anything. And are there any particular milestones that we should be thinking about, or other benefits just going to be seen gradually?

W. James McNerney, Jr.

Yeah I think John; I think it will be seen over time. What's you're hearing probably is our increased engagement and our sustained engagement. And the proposition here is Boeing as the aerospace leader if you work with us, there is a chance to increase volumes significantly, while helping us work flow, cash and margins. And I think lots of folks are engaging constructively, there are some, that are more hesitant and it will take time for us to workout business equations that makes sense for both of us.

But we are determined and committed and the reason we are, is that we are facing a more for less world in our own markets. We talk about sequestration, we talk about Europe, you talk about the expectations of our commercial airline customers as they compete aggressively with one another and is that industry consolidation globalizes. We need to be out in front of these more for less market trends with the partnership of our suppliers. And there is room for us together improve our value proposition and for those who work with us aggressively there is an opportunity for them to grow disproportionately. So it will be over time, we are in the second inning,

John Godyn – Morgan Stanley

Very helpful, thanks a lot.

Operator

And we go to Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak – Goldman Sachs

Hi good morning everybody.

Greg Smith

Good morning, good morning Noah.

W. James McNerney, Jr.

Good morning Noah.

Noah Poponak – Goldman Sachs

Jim two things that have happened recently from a macroeconomic perspective that I wanted to take your temperature on. First we've seen a little bit of slowing in some emerging markets, China stands out other parts of Asia and that's clearly becoming huge part of your business. And the second is we've seen rates start to increase a little bit and included there are number of drives of demand for your aircraft, but I think financing availability and use has played a little bit of a role there at least. And so clearly there hasn't been any recent impact to demand, we see orders continue to roll in, but I just wanted to ask you, how worried are you about those two things if at all and have you started to have that conversation pickup with that customer or with your sales force in anyway that you can share with us?

W. James McNerney, Jr.

Well I think, I would categorize them both as watch items that we pay attention to. And my concern about either right now no, I mean I think but it is part of the more for less world that I anticipate and we've got to be competitively ready for not very negative scenarios, but turbulence and China is – we don't see any pullback really on their investment in infrastructure related activities. They remain very committed to that. I think they are having difficulty transition in their economy right now and there is all kinds of names what they're doing. But it's more of a demand driven consumer led domestically driven economy and that transition is not easy to make from a external investment FDI kind of led economy. And so quite frankly I expect this kind of turbulence as they try to manage that.

And rates, rates remain very low historically there was ample financing at rates much higher than where we are today, if they keep going and get way, way high against historical levels. Sure we'd have to manage it. And one of the reasons we’ve managed Boeing Capital Corporation down significantly over the last number of years is so if we ever do get to that point, we’ll have some room to help and but we’re nowhere near that point yet.

Noah Poponak – Goldman Sachs

Okay. I appreciate the color.

W. James McNerney, Jr.

Sure.

Greg Smith

Operator, we have time for one more question.

Operator

And that will be from Jason Gursky with Citi. Please go ahead.

Jason Gursky – Citigroup

Good morning, everyone.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning.

Jason Gursky – Citigroup

Just one quick question on the 787 and then one on R&D on the 787 when will you actually have 10 aircraft per month being produced through that line it won't be firing and playing, and then. Okay, go ahead.

Greg Smith

No, no I'm sorry.

W. James McNerney, Jr.

Keep going both.

Jason Gursky – Citigroup

Okay. And then just on the R&D, Greg I'm just trying to get a sense for the remainder of this year half on half, you suggested that Commercial will be higher from an R&D perspective, but what about Defense? And then what does this $3.3 billion number look like and R&D look like going forward?

Greg Smith

Yeah.

Jason Gursky – Citigroup

At 2014, 2015, 2016 from a Cadence perspective?

Greg Smith

Yeah. When you look at the back half of the year Defense rate now looks about flattish, so you'll see that kind of normal run rate that you seen in Q1 and Q2. And as I said in Q3 and Q4 with BCA, you're seeing the ramp up of the MAX and the 10X. And then with the -9 starting to obviously taper off that that's really what you're seeing there.

As far as going forward at this point, I think as I mentioned before we're seeing kind of flattish R&D going into 2014 and we're continuing to work that and refine our estimates from there going forward, but that we're seeing right now.

W. James McNerney, Jr.

Yeah, I would just add one of that came through the factory end of the year and the other point, I would make just on the Defense R&D is that that team has been able to increase research and development, funding in some key elements of innovation relative to our competition.

And I think we've been able to do that because we got after the cost issue faster and more aggressively. So that we can both grow margin and increase investment in R&D. I think history tells you in the Defense & Space business, if you can hang on to your innovation during these downturns, it's going to pay back and may not be for a few years, but we're absolutely convinced it will pay back, sorry, are you got that…

Jason Gursky – Citigroup

That's a great point, yeah. And on 787 actually having 10 aircraft per month during to the system with airplanes?

W. James McNerney, Jr.

Yeah, at the end of the year.

Greg Smith

End of the year.

W. James McNerney, Jr.

This factory will be operating at 10 a month.

Greg Smith

This year…

Jason Gursky – Citigroup

Okay.

W. James McNerney, Jr.

Yeah.

Jason Gursky – Citigroup

Perfect. Thank you.

W. James McNerney, Jr.

Yeah.

Greg Smith

You're welcome.

Operator

Ladies and gentlemen that completes the analyst question-and-answer session. (Operator Instructions) I'll now return you to the Boeing Company for introductory remarks by Mr. Tom Downey, Senior Vice President of Corporate Communications. Mr. Downey, please go ahead.

Thomas J. Downey

Thank you. We will continue with the questions for Jim and Greg. If you have any questions after the session ends, please call our Media Relations team at 312-544-2002. Operator, we're ready for the first question, and in the interest of time we ask that you limit everyone to just one question please.

Operator

We'll go to Jon Ostrower with Wall Street Journal. Please go ahead.

Jon Ostrower – Wall Street Journal

Hey, good morning guys.

W. James McNerney, Jr.

Good morning.

Greg Smith

Good morning, Jon.

Jon Ostrower – Wall Street Journal

Question about the overall 787 learning curve and really the rate of cost improvement that you've already achieved on both the growth inventory and your unit cost, where you are today?

Greg Smith

Yeah.

Jon Ostrower – Wall Street Journal

And as you look at that rate of improvement, do you need to increase the rate of improvement from here, does it need to be steeper, does it need to be shallower compared to where you have come thus far from the first point.

Greg Smith

No, I think it depends on what starting point you're coming from, but certainly as we look at the units to be produced going forward. We still see our learning curve that continues on a pretty steady trajectory similar to what we've experienced on other program.

But again the differentiator on the 787 is how we have some of these supply agreements, time base, but net-net you're going to see improvements on a unit-by-unit basis going forward and a lot of that is again production stability and getting stability in the production system, getting to 10 a month and holding there and as I mentioned we are seeing improvement unit-by-unit whether it's quality or flow time or jobs traveling outside of the factory out in the flight line. All of that on the unit-by-unit basis is improving and that's driving the unit cost.

W. James McNerney, Jr.

Yeah, and Jon I would just add that the compounding effect of just staying on our current curve is significant year-over-year.

Jon Ostrower – Wall Street Journal

And just kind of on that notice well, just sort of with the 787-9 schedule as you kind of look at introduction of that into your learning curves and kind of bounce back up on just the overall higher cost of a new derivative. Okay first can you talk about number one, where you were on the schedule with that airplane, when you expect to fly more specifically and kind of where you are on entering into service, I know there was a talk about early 2014? Now you are saying 2014, could you might just give a little bit more a clarity on that?

W. James McNerney, Jr.

Yeah, well as I mentioned it's – we are in final assembly now with the first airplane that's progressing well getting ready to move to into flight test, and right now we are looking at mid next year deliveries. So progressing well as I mentioned we were obviously just personally out on the airplane and making great progress into the factory getting ready to move in the flight test.

Jon Ostrower – Wall Street Journal

Thanks guys

W. James McNerney, Jr.

Yep.

Operator

Our next question is from Julie Johnson from Bloomberg News. Please go ahead

Julie Johnsson – Bloomberg News

Hi all.

W. James McNerney, Jr.

Good morning.

Julie Johnsson – Bloomberg News

A quick 747 question you have netted some news sales recently, which is great. Do you see the program as being sustainable over the long-term without an upturn in either the global cargo market or greater sales activities?

W. James McNerney, Jr.

Well we do see it is a viable long-term program, I think it’s significant that we are continuing to get orders in the middle of a down turn, which is were we are today. So as the market normalizes over the next year or two, which is what we expect normalizing will put more an additional tailwind behind our order experiences. So I think the point here is how well we are doing during a downturn.

Julie Johnsson – Bloomberg News

Okay and then on the 777-X I know launch looks like its going to later this year, is it too early to start talking about where the wing will be built and who is potentially in the running for that?

W. James McNerney, Jr.

Yeah, I think it is. The normal timing for deciding on production, placement would be if we did introduce launch in the back half of the year would be anywhere from two to six months after that.

Julie Johnsson – Bloomberg News

Okay. So those decisions will be made, it sounds like…?

W. James McNerney, Jr.

Yeah.

Julie Johnsson – Bloomberg News

Late this year or early next year?

W. James McNerney, Jr.

Yes.

Julie Johnsson – Bloomberg News

Okay, great. Thank you.

W. James McNerney, Jr.

You’re welcome.

Operator

And next we’ll go to Dominic Gates, Seattle Times. Please go ahead.

Dominic Gates – The Seattle Times

Good morning, guys.

W. James McNerney, Jr.

Good morning, Dominic.

Greg Smith

Good morning.

Dominic Gates – The Seattle Times

In the first half of the year as you began to increase production and looked ahead to new development program. There was a certain amount of surprise here certainly I was surprised by it.

W. James McNerney, Jr.

Dominic, Dominic, we didn’t here the first part of your question. Sorry.

Dominic Gates – The Seattle Times

I’m sorry.

W. James McNerney, Jr.

Yeah, yeah just start again.

Dominic Gates – The Seattle Times

Okay.

W. James McNerney, Jr.

There we go, there we go.

Dominic Gates – The Seattle Times

At the beginning of the year there was – given the increases in production that were happening and the projections for starting new development programs, there was a certain amount of surprise in the Puget Sound region when we got some negative employment news and so there was news of cuts in both engineering and cuts in the production workforce and as well as that we have some IT jobs moving, news at IT jobs moving. So now at the midpoint of the year I would like to ask for an update on how you see all that falling out and how it may change for the rest of the year and how do you see employment in the Puget Sound region.

W. James McNerney, Jr.

Yeah, well Don, as you mentioned the head count has declined there primarily around the support on the 787 as we've made progress coming down that learning curve and transitioning in rates, transitioning obviously through the development phases in the higher production rate. So the efficiency of the production system is driving that.

And then in some of the other areas you mentioned, it's really been about productivity and cost opportunities that we talked about as far as a productivity overall in Defense and in BCA and we've made choices there to go to more affordable areas within the business to again drive productivity and profitability and as Jim noted a more for less world that we're faced with.

Dominic Gates – The Seattle Times

Sorry, when you say go to more affordable areas within the business, what does you mean?

W. James McNerney, Jr.

Yeah, size in areas with where we see lower costs, overall cost rates and able to capture those cost and get those into our productivity and again as we're faced within the Defense environment, which is certainly very challenging and then on the commercial side, we're looking at every opportunity we can to continue to drive productivity and profitability throughout the programs.

Dominic Gates – The Seattle Times

And so how do you see that, can you just update on the projections they had for employment in the future times?

W. James McNerney, Jr.

Yeah, I think at this point, I mean I think what you've seen today is we peaked out last year and we're starting to come down this year and we'll continue with that going forward as we increase rates and continue to look of a productivity improvements.

Dominic Gates – The Seattle Times

Okay, thank you.

Operator

Our next question is from Josh Freed with the Associated Press. Please go ahead.

Joshua Freed – Associated Press

Hi, there on the Heathrow 787, can you say whether Boeing is going to pay for that warranty and conduct a warranty repair or pay for the repair under warranty and pay for it. And then more big picture, can you say sort of where that fits in with your kind of readiness to carry out repair like that, I mean is that something that you guys are figuring that you'll do in house, so that more of a contractor thing? How should we think about how future, whole repairs will be done on 787?

W. James McNerney, Jr.

Well, any whole has get being done, okay with lots of customers over and we do have warranty programs that cover a lot of this. The specific incident you're talking about, I assume was Ethiopian.

Joshua Freed – Associated Press

Yes.

W. James McNerney, Jr.

And yeah, and we're in discussions with them right now about how to handle it. We want to make sure. They are in agreement with our approach. We have for the last five or six years, we've thought about how to repair composite structures when they are damaged. And we will obviously honor any and all warranty obligations as we do that and typically both we and the carrier have insurance that fact this up. So if the question eventually gets to financial impacts, there will be very little.

Joshua Freed – Associated Press

Sure. And there is any repair that that you folks would typically carry out in-house or do you set that to future, whole repairs would be done more by third parties?

W. James McNerney, Jr.

I think typically as we introduced new airplanes, we disproportionately do the repair. But over time the industry learns how to do the repair and we work with other maintenance and repair operations because it benefits our customers that decentralize capability around the world. I think in this case, we will have I think SACEPO in this case because it’s a very new model, very new airplane type they relay on us disproportionately for the advisor how to handle it?

Joshua Freed – Associated Press

All right, thank you.

W. James McNerney, Jr.

You’re welcome.

Operator

And next we’ll go to Andrew Parker with the Financial Times. Please go ahead.

Andrew Parker – Financial Times

Hi, good afternoon gentlemen. Can you hear me okay?

W. James McNerney, Jr.

Yes, Andrew. Yeah, I hear you fine.

Andrew Parker – Financial Times

And a couple of question to you Mr. McNerney, please.

W. James McNerney, Jr.

Yes.

Andrew Parker – Financial Times

First off, could you respond to Airbus’s John Leahy who in the wake of the Heathrow fire said that the Dreamliner was quite not reliable and suggested it was rushed to market. And he said just equate him precisely, it’s pretty obvious this airplane is not reliable and does not have mature systems he said. And also – could you just give a view, you had at least two fires with the Dreamliner this year, the one at Boston and then the one at Heathrow.

Do you think if you had another fire incidence and you could avoid crisis at least in public confidence in the plane?

W. James McNerney, Jr.

I think as to your first question, I think even Jon thought that he was – you would have to ask him, but my guess is John would feel that he was got carried away with himself, which can happen. But you have to ask him. As to your second question, the reliability of this airplane is about the same as the reliability that we've had introducing new models included in the most successful wide-body we've ever introduced 777 or about at the same kind of the special liability levels that we had then and there are a lot of things that happened early.

When you look at the data and we monitor public opinion working with our airline customers as to how they feel about Boeing and the 787. The support for this airplane remains high and as we go through these issues, which admittedly, I'm not trying to say we want to go through these issues I believe we don't at all. But our customers have shown an ability to appreciate a game changing nature of this airplane, also to appreciate that safety has been something that has increased overall in this industry dramatically in the last 10 years.

It's up 10 fold in the last 30 or 40 years. And I think the public knows that and the regulatory regimes that we go through and the amount of time and effort we invest in safety and redundancy on these airplanes, so that even when there is a point of failure, there is two or three other systems to back it up. I think the public hedge seems to understand and appreciate that and so it gets them through some of these well publicized events that really or roughly the same kind of events we had when we introduced new airplanes over time, other times, other places.

Andrew Parker – Financial Times

Okay. And just one quick separate question, you were asked about whether you want to get to market share parity on A320neo versus MAX?

W. James McNerney, Jr.

Yeah.

Andrew Parker – Financial Times

You obviously expressed the view that you think that you can achieve that, can you achieve 50/50 there without a price war?

W. James McNerney, Jr.

I think the quick answer is I cannot predict the future, point one. Point two we have a lot of value in this airplane. And quite frankly, we are getting very responsible prices from our customers, because we're delivering lots of value here. This significantly improves the operating economics of our customers, which is not to say that they don't compare and ask for better pricing in every campaign they do, but in the sense that you ask the question, I think which is pricing to the place where that destroys or significantly impairs our economics, I don't see that.

Andrew Parker - Financial Times

Okay. Okay, thanks very much.

W. James McNerney, Jr.

You're welcome Andrew.

Operator

And we'll go to Veronique Dupont with AFP. Please go ahead.

Veronique Dupont – Agence France-Presse

Good morning. And still on the 787, I wanted to know when you expect to reach profitability, when do you think you are going to breakdown as to plane. And could you give some details on how the discussion for compensations for the earlier this year problems with the batteries of the 787 are going with ANA and with JAL and with other customers? Thank you.

W. James McNerney, Jr.

Well, to answer your first question, the program is profitable today and we continue to drive profitability going forward through a lot of things we talked about partnering for success and increasing productivity inside of our factories?

Greg Smith

And then compensation on the battery, there were some instances where we had obligations to customers and those have all been satisfied and you could see by our quarterly results that there was no significant impact to our operations as we work with our customers to remedy situation.

Veronique Dupont – Agence France-Presse

And those are all behind you by now or there are still some matters to be finalized?

Greg Smith

We think they are all behind us now, yeah.

Veronique Dupont – Agence France-Presse

Thank you.

Greg Smith

You're welcome.

W. James McNerney, Jr.

Operator, we have time for one last question please.

Operator

And that will be lwyn Scott from Reuters. Please go ahead.

lwyn Scott – Reuters

Hi, can you hear me?

W. James McNerney, Jr.

Yes, yes.

lwyn Scott – Reuters

Okay. Thanks for taking my question. What is the estimated timeframe for repair of the Ethiopian Airlines jet to actually get it back in the air and how does that compare with the repair time for the Japan Airlines 787 at Logan in Boston.

W. James McNerney, Jr.

Well yeah, I mean these are very, very different situation, I means I think the retrofit time on the battery was a couple of days, okay.

lwyn Scott – Reuters

But wasn’t there some damage, fire damage to the hall there or two in Boston?

W. James McNerney, Jr.

Yeah, there was not significant structural damage to the hall, okay. That was not something that required a lot of time and effort. I think the obliviously we had to inspect and check, but when you got down to the effort, I'll make sure that we get back to you if I'm a little bit off with this answer. But I do not recall a significant amount of structural repair if any, okay.

Now these Ethiopian airplanes, it's little premature to project what's the timing might be. We are in discussion with the Ethiopia. We want then to be completely comfortable with our approach and those discussions will take another few days, weeks and then we'll be in a better position to give an estimate.

lwyn Scott – Reuters

Okay. How much of the repair do you anticipate would go beyond what has been the repair process that have already been sort of certified as a part of the development program of the 787?

W. James McNerney, Jr.

It's a little early to speck it. We obliviously invested a lot of time and effort in repair processes as we developed this new composite technology, we feel comfortable that we know how to address this issue and most other structural issues as they arise. But I don't want to get out ahead of discussions that are going on where they have very fine customer of Ethiopian and projecting factory, the repair they are going to be comfortable with all the time it is going to take.

lwyn Scott – Reuters

Okay.

W. James McNerney, Jr.

All right