Operator

Thank you for standing by. Good day, everyone. And welcome to The Boeing Company's Fourth Quarter 2014 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 introductions, I am 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 fourth quarter 2014 earnings call. I am Troy Lahr and with me today are Jim McNerney, Boeing's Chairman and Chief Executive Officer; and Greg Smith, Boeing's Chief Financial Officer.

After comments by Jim and Greg, we will take your questions. In fairness to others on the call, we ask that you please limit yourself to one question. As always, we have provided detailed financial information in today's press release and you can follow this broadcast and slide presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections and goals included in our discussion this morning are likely to involve risk, which is detailed in our news release and our various SEC filings, and in the forward-looking statement disclaimer at the end of this 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.

Jim McNerney

Thank you, Troy, and good morning, everyone. Let me begin today with a brief review of some recent strategic achievements, followed by comments on our strong 2014 operating performance, then an overview of the business environment. After that, Greg will walk you through our financial results and outlook in greater detail.

Now, let's move to slide two please. Boeing is entering 2015 stronger, healthier and better positioned in its markets than any time in recent memory. Our strategic accomplishments over the past 24 months alone provide a compelling picture of the progress we have made to enable sustain growth and improving profitability as we near the start of our second century in business.

During that timeframe, we captured more than 2,700 net new Commercial Airplane orders, grew our market share and deliveries with six successful production rate increases, including reaching our target 10 per month on the 787 with more than three per month following steadily from our capacity expansion in South Carolina.

We completed a comprehensive refresh of our Commercial Airplane product line with the highly successful launches of the twin-aisle 787-10 and the 777X on a combined 400 orders and commitments, and the launch of the single-aisle 737 MAX 200 with a 100 airplane order from Lion Air.

Starting with the hard-fought technology gains of 787, we have built a substantial technological lead in commercial aviation, particularly in the high-value twin-aisle market.

And by listening to our customers and applying our proven technologies and lessons learned, in summary, we have derisk a decade of new product development, while expanding our edge in the performance and efficiency of our airplanes.

Turning to Boeing defense, space and security, despite a top domestic budget environment, BDS continued to strengthen its relative market position and competitiveness.

We have accomplished this by driving significant new efficiencies in response to the environment in order to meet government customer needs and fund investments in technology and innovation, including in space programs, where we have restored our technological lead and market position in satellites, autonomous spacecraft, missile defense and human space flight.

To the benefit of both businesses, we also secured unprecedented production continuity and improved economics with long-term labor agreements at our major production sites in Puget Sound, St. Louis and Philadelphia, and we retired significant and long-standing legal and financial risks from billions in potential liability on matters such as the A-12 program to the short-term threat to our balance sheet from Defined Benefit Pensions.

As you know by the end of next year, approximately 90% of our workforce will participate in Defined Contribution Plan, which provide attractive and competitive benefits to employees without the risks to our balance sheet.

Going forward, we remain ever focused on driving productivity and executing on our growth initiatives, which are fundamental to our success.

To meet customer demand for our market leading Commercial Airplanes, we have five more rate increases ahead of us over the remainder of the decade. These higher production volumes will provide additional opportunities for driving step function gains in productivity for us and our suppliers through lean plus, capturing the value of quality and our partnering for success efforts.

We are equally committed to breaking the cost curve on our new development programs and delivering them on time with performance as advertised. To that end, we have focused our engineering teams on designs that are more producible, common systems and parts across airplane families and our disciplined gated development process.

We have also increased our investment in manufacturing and production innovations, including automation to increase quality and safety in the workplace and reduce load times.

Overall for 2015 and throughout the remainder of the decade, these recent achievements in the marketplace, in our operations and in our financial performance set the stage for expected significant cash generation, the flexibility to invest for growth in support of our customers and the increasing return of cash to shareholders.

With that as perspective, let’s discuss our 2014 results on slide three please. Strong fourth quarter results driven by higher commercial deliveries and solid operating performance capped an outstanding year. We continue to develop -- to deliver on our strategies to convert our backlog into profitable growth and to drive productivity and affordability throughout the company.

For the full year we reported record revenue and core earnings per share, solid operating margins and strong cash flow, much of which was returned to shareholders. Boeing Commercial Airplanes reported record revenue of $60 billion for the year, on higher production rates and an industry record 723 delivers, which expanded our global market share leadership in deliveries for the third consecutive year.

2014 was also an exceptional year for new bookings, as we captured commercial gross orders of 1,550 airplanes and record net orders of 1,432 airplanes, which increased our backlog to nearly 5,800 airplanes. When combined with strong orders from our Defense business, total company backlog grew to a record $502 billion.

Other Commercial Airplanes key milestones in 2014 included successfully reaching the 42 per month production rate on the 737 and announcing plans to increase the 52 in 2018. Model certification and delivery of the first 10 787-9, completing preliminary design review on the 787-10 and breaking ground on the new 777X composite centers in Puget Sound and St. Louis.

Boeing defense, space and security also had a very strong year, with solid revenue, healthy margins and significant new business wins and program milestones. Key contract awards captured during the fourth quarter, included an order for two 702 high-power satellites, multiple long-term international service contracts, including a 25-year order from the Australian Government to train rotary wing aircrews valued at approximately $500 million, and finalization of the NASA Commercial Crew Award announced in the third quarter.

Noteworthy program milestones in the quarter included the first flight of the 767-2C test aircraft for the KC-46 tanker program, the selection of the V-22 by Japan to fulfill their tilt-rotor aircraft requirements and U.S. Government funding for EA-18G Growler production.

Finally, our strong operational performance trend, significant cash flow and confidence in the future, all supported by our December announcement of the new share repurchase authorization totaling $12 billion and a 25% increase in the quarterly dividend.

With that, let's turn to the business environment on slide 4. Our view of the business environment remains positive, given favorable global air traffic trends, improving airline profitability and the continuing need for efficient and value-creating products we provide.

Strong growth in the commercial airplane market continues to drive demand that supports our planned production rate increases over the remainder of the decade. Net new orders for 2014 that I mentioned earlier were essentially twice our 2014 output, and our record backlog of 5,800 airplanes represents approximately eight years of production at current rates.

Replacement demand remains an important market driver, with airlines continuing to introduce newer more efficient airplanes with superior economics and a rapid return on investment in place of older less efficient models and service. Notwithstanding, a fuel price environment today that is well below the 15-year average, the value proposition for our airplanes remains a compelling one.

Historically, we have seen aircraft orders more correlated to airline profits. And as many of you may recall, we closed the business case for and launched the 787, when oil was at $40 a barrel. Furthermore, based on discussions with our customers, more oil prices have not substantially changed their views on fleet planning, for their commitment to existing delivery schedules.

Our new technologically advanced airplanes, not only have far better fuel efficiency and lower maintenance costs, but also often deliver higher passenger and cargo revenue, increased residual values, a better overall passenger experience and greater range, allowing for new city pairs and more optimal routes. All of these elements provide significant value to our customers over the life of the aircraft.

Overall, we see low fuel prices and positive traffic trends as beneficial to our industry and growth prospects. Our long-term outlook also remain strong, as we expect the combination of growth and replacement to drive the need for nearly 37,000 aircrafts over the next 20 years.

In the twin-aisle segment, we continued to see healthy demand for both the 777 and the 777X, which are outselling the competition by a wide margin, giving us confidence in our ability to efficiently transition production between the two airplanes. In 2014, we captured 63 new orders for current 777 models, giving us 217 firm orders in backlog.

We expect demand for the 777 to remain healthy through the end of this decade, with an anticipated average order capture of around 40 to 60 airplanes per year to support the transition to the 777X. With the new airplanes -- with the new airplanes scheduled to enter final assembly in the 2018 timeframe, this transition will leverage new manufacturing processes and technologies being proven on the current 777 to optimize the 777X production system.

On the 787 program, which delivered a twin-aisle industry record, 114 airplanes in 2014, we remain focused on continued production efficiencies and support our future planned rate increases to match the strong market demand for the airplane. Since the first customer flight, 787 fleet has now flown -- has now safely flown approximately 30 million passengers more than 400 million miles, while saving 1 billion pounds of fuel, providing game-changing efficiencies and capabilities to 29 customers worldwide.

In the single-aisle segment, demand for our new fuel-efficient 737 MAX, also remains high with cumulative orders totaling more than 2,660 airplanes from 57 customers. The Development of the MAX remains on track for the first delivery in 2017.

Turning to defense, space and security, we continued to see solid support among U.S. customers and Congress for our major programs. In addition to the Growler funding I mentioned earlier, the FY '15 budget signed into law in

December fully funds other core Boeing production programs, such as the Apache helicopter and the P-8A Poseidon. Key development programs like tanker and Long-Range Strike also were fully funded and additional funds were added for the Space Launch System.

We continue to see strong international demand for our offerings as well, particularly in the Middle East and the Asia-Pacific region. In 2014, international customers for our defense, space and security represented 28% of revenue and 36% of our current backlog. While notable alone for its size, the strength of our international defense backlog also comes from its diversity across our product and services portfolio and the geographic mix of its customer base.

Our investments in technology and innovation for organic growth continue in areas, such as commercial derivatives, space, unmanned systems, intelligence, surveillance and reconnaissance and the critical few large-scale future programs that are priorities for our customers like Long-Range Strike, UCLASS and the T-X Trainer.

The relative strength of our defense, space and security business stems from a portfolio that is reliable, proven and affordable, supported by our ongoing market-based affordability initiative, which is focused on reducing operating costs by another $2 billion to ensure competitiveness through the ongoing downturn in domestic defense spending.

In summary, our business strategies are aligned to the realities and opportunities of our markets, and our teams are executing them well to deliver topline and bottom-line performance and capture new business to sustain our growth and profitability for the decades to come.

Now over to Greg for our financial results and our updated guidance. Greg?

Greg Smith

Thanks, Jim and good morning. Let's turn to slide 5 to discuss our full year results. Revenue for the year was a record $91 billion, reflecting 5% growth from last year, driven by higher deliveries in our Commercial Airplane business.

Core earnings per share totaled $8.60 for the year, representing a 22% increase. The increase in core EPS was driven by strong operational performance across the company. Adjusting for the tax items in the A-12 litigation settlement 2013, core earnings per share increased 14%.

Operating cash flow for the year was also very strong at $8.9 billion. The robust cash generation was driven by higher deliveries, solid core operating performance, favorable timing of receipts and expenditures, and capturing the early benefits of our disciplined working capital initiatives.

Let’s now move to our quarterly results on slide 6. Fourth quarter revenue increased 3% to $24.5 billion, driven by strong Commercial Airplane deliveries. Core operating margins increased to 9.6%, reflecting solid productivity gains in both businesses.

Fourth quarter core earnings per share increased 23% to $2.31 on higher volume and continued strong operating performance. Fourth quarter 2013 included again $0.34 for the A-12 litigation settlement.

Let’s now discuss Commercial Airplanes on slide 7. For the fourth quarter, our Commercial Airplane business increased revenue 15% to $16.8 billion on a record 195 airplane deliveries and solid operating margins of 9.3%.

The margin benefit from the higher volume mature program was offset by the impact of higher 787 deliveries and the anticipated increase in period costs, primarily for investments to support future growth and productivity.

Commercial Airplanes revenue for the year was a record $16 billion, an increase of 13% as we successfully executed on our planned production rate increases, resulting again a record deliveries totaling 723 aircrafts. Commercial Airplanes captured $27 billion of net orders during the quarter and backlog grew to a new record of $440 billion and nearly 5800 aircraft.

Specifically on the 787, we exceeded our delivery guidance for the full year as the team worked hard to deliver 114 787s and in total, we've now delivered 228 787s to 29 customers, 14 of which were new customers in 2014. We continue to see progress in key operational performance indicators as we further implement production efficiencies and stabilized the overall 787 production system.

On the 787-8, we've seen a decline in unit cost of approximately 30% over the last 175 deliveries and on 787-9, we’ve seen declines of 20% since the first delivery. Based on this progress, our production schedule and planned productivity investments, we continue to expect the 787 to be cash positive during 2015 and we still anticipate deferred production to decline shortly after we’ve achieved the 12 per month production rate in 2016. No change to these fundamental milestones.

In the fourth quarter, the 787 deferred production increased $960 million to $26.1 billion and we now anticipate 787 deferred production to grow at moderate levels for the next several quarters as productivity improvements on both models offset timing of supplier negotiations, further investments to optimize the production system and our decision to maintain higher employment levels to ensure the continued smooth introduction of the 787-9 and further incorporate additional productivity and reliability investments.

These focused decisions and efforts are expected to continue to drive long-term efficiencies, margin improvement and cash generation on the 787 program. Overall, our focus and priorities remain unchanged for the 787 program. Solid day-to-day execution, risk reduction and improving long-term productivity and cash flow going forward while continuing to have smooth ramp up on the 787-9 production, prepare for the 12 per month rate introducing the -10 while again driving efficiencies across all aspects of the program.

Let's turn now to Defense, Space and Security results on slide eight. Fourth quarter revenue for our defense business was $7.6 billion and operating margin increased to 12.1% due to strong business across the portfolio. Revenue for Boeing Military Aircraft declined to $3 billion in the fourth quarter resulting from lower planned C-17 and F-15 deliveries. Operating margins increased to 12.3% in the quarter, driven by solid operating performance.

Network and Space Systems revenue declined to $2.2 billion in the fourth quarter on lower government satellite volume. Operating margin at N&SS was 8.8% in the quarter. Global Services & Support reported 2% increase in the fourth quarter revenue to $2.4 billion on higher MM&U volume and generate strong operating margin of 14.9%, driven by higher operating performance. Defense, Space and Security reported a solid backlog of $62 billion with 36% of our current backlog now representing some customers outside the United States.

Let's now turn to slide nine. Operating cash flow for the fourth quarter was $5 billion. The strength of our cash flow was driven by higher volume, strong operating performance, favorable timing of receipts and expenditures and again early benefits of our disciplined working capital initiatives. With regard to capital deployment, we paid $519 million in dividend to shareholders and repurchased 7.8 million shares for $1 billion in the fourth quarter, bringing our total 2014 repurchase activity to 47 million shares for $6 billion.

And as Jim mentioned earlier, we announced in December that our Board of Directors increased the share repurchase optimization to $12 billion and increased the dividend 25%, up 88% in the last two years. We expect to complete the repurchase authorization over approximately the next two to three years.

Our capital deployment to date continues to demonstrate the strength of our portfolio and backlog and our commitment and confidence in the business performing well going forward. Returning cash to shareholders along with continued investment to support future growth remains priority for us.

Let’s now move to cash and debt balances on slide 10. We ended the quarter with $13.1 billion of cash and marketable securities and our cash position continues to provide solid liquidity and positions us well going forward. Again our financial strength allows us to continue to invest in key growth areas of the business, returning cash to shareholders and execute our cash deployment strategies going forward.

Turning now to slide 11, we’ll discuss our outlook for 2015. Our guidance for 2015 reflects solid core operating performance, higher deliveries at Commercial Airplanes business while reflecting the near-term investments needed to support our efforts to drive long-term growth and productivity. Core earnings per share guidance for 2015 is set to be between $8.20 and $8.40 per share and excluding the 2014 tax settlements totaling $0.71 per share. 2015 earnings per share is expected to grow between 4% and 6%.

Revenue for 2015 is forecast to increase to be between $94.5 billion and $96.5 billion, representing growth of between 4% and 6%. Our 2015 Commercial Airplane revenue guidance is between $64.5 billion and $65.5 billion reflecting 8% to 9% growth as we execute on our record backlog.

The 2015 commercial delivery forecast is now between 750 and 755 airplanes and 787 deliveries for 2015 are expected to be essentially in line with the 10 per rate -- 10 per month production rate plus a few early build deliveries. Commercial Airplanes operating margin guidance is set to be between 9.5% and 10% on improved operating performance offset by greater dilution impact of higher planned research and development spending, higher 787 deliveries and further investments to support future growth.

Defense, Space and Security revenue guidance for 2015 is between $29.5 billion and $30.5 billion reflecting the continued challenging defense environment, particularly offset -- partially offset, excuse me -- by the ongoing international growth. Operating margin guidance of the defense business is now between 9.75% and 10% reflecting continued productivity efforts offset by the impact of lower volume and delivery mix.

Supporting our long-term growth plans, we expect research and development spending for 2015 to be approximately $3.5 billion, with about 70% related to 787, particularly driven by the planned increase in 777X and 787-10 development while at BDS, we continue to invest in key strategic growth opportunities going forward. We expect operating cash flow for 2015 to be greater than $9 billion, reflecting higher deliveries, strong operating performance, continued 787 productivity and capturing the final C-17 orders.

This is somewhat offset by higher cash tax payments and favorable timing of receipts and expenditures benefited 2014 results. As we look forward, we expect further growth in operating cash flow in 2016 as we continue to execute on our backlog, capture additional productivity gains and improve 787 cash performance.

Capital spend guidance for 2015 is approximately $2.8 billion driven by the new 777X facilities and equipment, Charleston expansion to support the 787 rate increase, and other investments to support continued growth and productivity. Our required pension contributions in 2015 will be minimal as a result of legislative pension changes. We are now foregoing discretionary pension funding in 2015.

As we look into the next quarter we expect first quarter revenue, core EPS, and cash flow could be the lowest during the year based on timing of deliveries, phasing the expenditures and advances. First quarter EPS is estimated to be approximately 20% of our full earnings.

So in summary, Boeing’s 2014 financial performance and the 2015 financial guidance reflects the strong demand for our products and services, the strength of our backlog, and our continued focus on driving productivity throughout the entire enterprise.

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

Jim McNerney

Thank you, Greg. 2014 was another year of strong operating performance and significant cash generation, as we successfully executed on our record backlog that allowed us to return cash to our shareholders, while still prudently investing to sustain our growth and competitive advantage. Built upon an underlying foundation, 2014 was a very strong year for Boeing as we continue to deliver on the significant and sustained growth and increasing profitability and cash flow that our strategies were designed to produce.

Thanks to the tremendous efforts of our employees, our partners, and customers around the world. We achieved critical strategic milestones in both businesses. Continued focus and execution on production and development programs that are important to our customers and maintain our relentless focus on productivity to enable continued investment in our future, all of which sets the stage for further growth and sustained business performance for customers and shareholders in the years ahead.

Now we would be delighted to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from the line of Carter Copeland with Barclays. Please go ahead.

Carter Copeland

Hey, good morning, gentlemen.

Jim McNerney

Good morning.

Greg Smith

Good morning, Carter.

Carter Copeland

Just some quick clarifications about your comments on deferred production Greg, and a question. Did that change result and any negative margin impact on the program and how far rightward did it shift the cash breakeven point you had talked about in the past?

And then just from a high level, does it change -- does the differencing in the profile, a deferred production here represent a change in how you're managing the program or thinking about the long-term risk profile or return profile on the program? Is it reactive in anyway? Just from a high level, is there something more we should read into that and how you're approaching risk and return now?

Greg Smith

Yes -- no, I think that there you shouldn't look at any differently, Carter. I think when you step back and you look at how this program has performed, it's performed very well, 114 deliveries last year, and obviously we've reached the record production rate higher than any wide-body in aviation history and we are planning to go up.

The fundamental milestones that you talked about with regard to cash positive, we still expect that in '15 and we still expect deferred to decline shortly after we hit that 12 a month that we are planning for in '16. So those things have not changed.

We obviously -- as I discussed, we see next two to three quarters similar growth than what we’ve seen and then later in '15 the decline at a healthier rate. But all of that is anticipated in the guidance we gave in cash flow. And at the end of the day, that’s what matters. You’ve seen our results in '14, you see our guidance for '15, our cash, all that is again taking into consideration.

Carter Copeland

And the program margin?

Greg Smith

Program margin was just down slightly in the quarter but not significant.

Carter Copeland

Okay. Thanks.

Greg Smith

You’re welcome.

Operator

And next, we will take Doug Harned with Sanford Bernstein. Please go ahead.

Doug Harned

Good morning.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Doug Harned

I am interested, you’ve got -- I mean, you’ve had very strong cash in Q4, so we are looking at more than $9 billion in operating cash in '15. And then, I was surprised to see deferred continuing to rise. Could you walk through, really two things here, the puts and takes of getting of your cash -- operating cash flow in '14 to '15?

And then, when you look at how much you've got in the balance sheet, you've got now cash in STI of over $13 billion and you're going to generate more than $6 billion in free cash flow. How do you expect to deploy that? You should have declining risk here. This is a lot of cash. And it seems like it's a lot more than you would really need to manage the company on the balance sheet today.

Greg Smith

Well, as you know, Doug, one of the strategies we had in place was to derisk the decade and we've certainly done. The risk profile going forward is a very different than it was in the past. And so continuing to execute on delivering on the backlog, focusing on the core operating performance, again improving the 787 cash profile, and of course capturing those final C-17, that's the biggest driver from '14 to '15. We are going to have higher cash taxes because we are improving unit costs on 787. And we have again slightly higher R&D, all planned out, 777X and 10X. So those are kind of the moving pieces from '14 to '15.

With regards to deployment, you've seen what we did last year. You see the authorization we have in place, it's in place to utilize it and we plan to do that.

Operator

Our next question is from Howard Rubel with Jefferies. Please go ahead.

Howard Rubel

Thank you very much.

Jim McNerney

Good morning, Howard.

Howard Rubel

Good morning. Nice numbers.

Jim McNerney

Thank you.

Howard Rubel

One question related to 787 and sort of orders related. As I look at it, this year is more of a year to fill in some holes and demonstrate that the products you have, have extended legs. Could you address some of the opportunities with some specificity on 777? And then also on what you're finding from customer feedback on the 787? And what kind of movement there is to Dash 9s?

Jim McNerney

Let me take a swing at that one Howard. On the 777, the good issue there obviously is the bridge, transition to the bridge because I think the market is focused on the launch of the 777X, a very robust launch. As to the bridge, there is 63 orders this year that Ray and his team secured bodes well for the 40 to 60 we need over the next few years to get to the bridge. So I am feeling increasingly comfortable there. Long-term demand for the airplane, there is no competition for the airplane. So I feel very good about the long-term demand for the airplane.

I think on the 787, I think what you're going to see is a mix from Dash 8s to Dash 9s to Dash 10s and that we saw moving around this skyline as that's accommodated. That's all good news for The Boeing Company in the sense that we're usually selling more capability for higher price and that dynamic, I don't see changing. I think we are still -- we are little bit hampered by the number of orders we have, I mean, that's without the 20, 21ish.

I would anticipate toward the end of this year and in the next year a rekindling of orders on the 87 as we get a little closer to the end of the decade. People begin to pick up options. The moving around of the Skyline was subsided a little bit. And the airplanes performance, quite frankly, I cited it in my remarks, the airplanes performance to be candid is better I think, by and large, than we sold it at.

And we are very pleased with the operating costs, the fuel savings obviously, and the thing that is often left unnoticed here is that this grows the market. This airplane enables wide-body or any kind of body, quite frankly, city pairs that have never been enabled before. And so I'm sort of making up the number, but it's 20% of the demand for this thing is opening up capacity between city pairs that was not available before because of the performance of the airplane. So it's a little bit longer answer than you wanted, but that's my dump on the subject.

Howard Rubel

Thank you much.

Jim McNerney

Thanks.

Operator

And we'll go to Joe Nadol with JPMorgan. Please go ahead.

Joe Nadol

Thanks. Good morning, everyone.

Jim McNerney

Hey, Joe.

Greg Smith

Good morning.

Joe Nadol

Greg, I had a couple for you on just deferred. So wondering if you could as you've done the last couple quarters quantify, if there is any pull-forward from building Dash 9 inventory, if you could give us a sense sequentially if Dash 8 and Dash 9 unit costs declined, and if this was just mix related that you didn't see any deferred reduction sequentially?

Greg Smith

Yeah, there was no pull-forward in the quarter, Joe. There was more Dash 9. It was about 30% more Dash 9 mix in third quarter versus fourth quarter. So that obviously had an impact. And then we had more reliability enhancements in the fourth quarter than we did in the third. And again that's something that we are really trying to be proactive and get those embedded into the production system, so they are there when we deliver the airplane. But those are really the big moving pieces between 3Q and 4Q.

Joe Nadol

So the unit costs on both models did decline sequentially or they were flat?

Greg Smith

They did come down in the quarter.

Joe Nadol

Okay. And then just one final clarification, when you say you expect the program to be cash flow positive in 2015, that's deferred building, but you deliver a few of the early production aircraft and you're also including advances in advance of that production rate increase to help to get you to cash flow positive. Is that right?

Greg Smith

Yeah, that’s right, Joe. No change.

Joe Nadol

Okay. Thank you.

Greg Smith

You are welcome.

Operator

And we’ll go to Cai Von Rumohr with Cowen and Company. Please go ahead.

Cai Von Rumohr

Yes. Thanks so much. So you are talking about the deferred going up another, it sounds like $2.5 billion over the next three quarters, that's a pretty big change. Could you give us a little bit more granularity in terms of how much of that is inventory pull-forward, how much of that is buffer stock and how much of that is other items?

Jim McNerney

Yeah. I guess, Cai, I’d put it into three categories. First of all, let me just back up. The things we are doing on this program every day are all about driving cash and profitability over the long-term. So there is going to be decision we make quarter-over-quarter or frankly between last year and this year and forward, that are enhancements to the production system over the long-term that are proven, we've done them on other programs, and now it's about implementing them on the 787. So there’s some of that in there that’s really again focused on investments over the long-term of the program.

On as far as labor, we are coming down on unit cost, but we are coming down in a lower rate than what we expected or anticipated. And again, we are doing that at these higher labor levels to really achieve the stability, incorporate those reliability enhancements I talked about. And then these productivity initiatives, again they are going to take folks to work through each one of those at every sequence of the bill and we are working that. And we are working at an enterprise level. We are leveraging across Boeing.

So we know where the bottlenecks are or some of the challenges are. So now it's about reaching -- when we reach the 10 a month, capturing that and improving upon that. On the supply chain side, we’ve talked about the timing of some of our discussions and negotiations and some of those have moved out to the right and I think I’ve mentioned before that we're seeing a benefit in doing that. These guys are still coming down the learning curve.

We are helping them in encapsulate productivity enhancements that we are seeing or able to achieve in Charleston and Everett, we want to get that back into the supply chain. And then from there, we’ll mature our negotiations. So again a near-term sacrifice, but much long-term benefit frankly for us and our supplier. But those are really the three main categories that we are faced with over the next kind of year and to the end of '15. But very focused again on the long-term and very focused on improving cash in the program and none of those fundamental have changed.

Cai Von Rumohr

Can you quantify any of those three items?

Jim McNerney

No, I can’t Cai. I mean, those are the main three categories, like those are ones we are working on. There is no I see significant split between the three of them.

Cai Von Rumohr

Thank very much.

Jim McNerney

You are welcome.

Operator

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

Sam Pearlstein

Good morning.

Jim McNerney

Good morning, Sam.

Sam Pearlstein

I just wanted to see if you could help me out on two things. One is on the C-17, can you talk about how many are on the balance sheet at the end of the year of 2014 and how many you are assuming will be there at the end of 2015?

And then just looking at the share count assumption you have embedded in your guidance? That would seem to imply a pretty sizable buyback in order to get 40 million shares down on average over the course of the year? Can you try and size at all you are thinking around that?

Jim McNerney

Well, on C-17, we've got seven that remain unsold, Sam. We delivered seven last year. We'll deliver four in 2015 and then four in '16 and then probably about two in '17. So we are in active discussions with customers for the balance of those aircraft remaining and we are highly confident that we'll sell those and be able deliver them over that timeframe.

On the share count, like I said earlier, you saw what we did in '14, we up the reauthorization. So we are very focused on that, and we'll continue to execute and utilize that authorization.

Sam Pearlstein

Thank you.

Jim McNerney

Welcome.

Operator

Our next question is from Myles Walton with Deutsche Bank. Please go ahead.

Myles Walton

Thanks. Good morning.

Jim McNerney

Morning.

Myles Walton

Hey. Greg, if I kind of look at the last three years, you've been running, if you correct for the 787 after-tax, 14 bucks a share, pretty consistently over that period of time or about $10 billion? As you level off on the 787, any reason we shouldn't think about that as a starting point of discussion?

Greg Smith

I'm sorry, Myles, I wasn’t tracking exactly what you are focused on.

Myles Walton

It’s over the last three years you correct for all the 787 inventory build…

Greg Smith

Yeah.

Myles Walton

You’ve been doing a consistent level of $10 billion or about $14 a share in free cash flow.

Greg Smith

Yeah.

Myles Walton

Any reason that shouldn’t be the starting point of a discussion once you do level out on this 787 inventory?

Greg Smith

No. I think that’s fair.

Myles Walton

Okay.

Greg Smith

That’s fair. I mean, obviously, you've seen it, it’s a significant focus area for us and any -- all elements around working capital and we are going to continue that effort going forward.

Myles Walton

Just one clarification, were there any adjustments on the accounting blocks in the quarter?

Greg Smith

Yes. 737, an increase of 200 of -- all of which were MAX airplanes.

Myles Walton

Okay. Thanks.

Greg Smith

You're welcome.

Operator

And next we'll go to Jason Gursky with Citi. Please go ahead.

Jason Gursky

Hey. Good morning, everyone.

Greg Smith

Good morning.

Jim McNerney

Good morning.

Jason Gursky

Greg, I was wondering if you could just talk a little bit about the trajectory of CapEx and R&D as we move out into '16, '17, maybe even into'18, just kind of relative to where we are going to be in '15, we are going up, down, sideways on those items?

Greg Smith

All I mean, CapEx, this year, obviously, is just tied to the growth, right, it's on the successful launch of this 777X, the -10 and then, of course, 787 rate combined with 737. So those are the real of a -- fundamental drivers of the growth in CapEx. This year will be increased because of preparing for the entry into service of those aircraft and we will probably have a similar year next year and then it will start to decline from there.

And again, all tied to growth, all tied to the successful launches of those programs, combined with productivity, we've got additional productivity initiatives in here, including the automation that, Jim, talked about and so, that's kind of the profile on CapEx.

For R&D, again, 777X and 10X as 787-9 certainly winds down and 37, I'll say, MAX continues at a similar spend rate. If you look at the entry into service on 777X, you're going to see a profile from here, but again you're going to see 10X declining.

So we're continuing to manage it and look at further ways to optimize the R&D spend, as Jim has talked about a lot. But for this year, we're seeing that about $3.5 billion and I think managing it very efficiently and taking advantage of a lot of things, again that Jim highlighted, in doing it in a more efficient and effective manner.

Jason Gursky

Just one quick follow-up on the 777, can you talk a little bit about what the impact is going to be on your ability to deliver aircraft late in the decade, as you said, they're in the 777X, will that be coming in at the slower flow time and will your ability to deliver come under some pressure as throughout late in the second…

Greg Smith

Well, I don't think our ability to delivery will come under pressure, but you'll have a very similar to what you've seen on the 787. You'll have some additional flow time associated with those early introductory units and that will get feathered into the current 777 as we deliver those. So, yeah, I'd say, it's well planned out phasing in strategy that was really leveraged off the success of the 787 and that's the plan going forward.

Jason Gursky

Okay. Thank you.

Greg Smith

Welcome.

Operator

And next we'll go to Peter Arment with Sterne, Agee. Please go ahead.

Peter Arment

Hi. Yes. Good morning, Jim and Greg.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Peter Arment

Hey. Jim, I appraise you on the work here, let me give you one. Jim, this book-to-bill ever go down again, it's another strong year? How are you thinking about '15 and your comment on the 777 bridge, you're getting increasingly comfortable there?

Jim McNerney

Yeah.

Peter Arment

The 63 new, is it was characterize that as just replacement of the -200 or could you give a little more color there? Thanks.

Jim McNerney

No. I mean, I think the -- I mean, two examples with the ANA and Cutter where there was a blended order of both, the new airplane, the X, as well as one of the current models. I think in both cases the 300ERs and I'd maybe for getting exactly the model type in one of those cases. But I think it is a sign that the capability is an enduring capability and the competition is -- I hate to say it this way but there is not much competition to this capability.

So versus any alternative, both the old and the new make sense and it's more a matter of satisfying demand and running a competitive airline that drives them to buy both types. And so we're in a fortunate position here. And it's one that we will shamelessly take advantage of.

Peter Arment

And on book-to-bill for '15.

Jim McNerney

Book-to-bill, its early in the year, I think, it will at least be one to one would be is the way it looks now and we'll see as the year goes forward.

Peter Arment

Okay. Thank you.

Jim McNerney

Yeah.

Operator

Our next question is from Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ron Epstein

Yeah. Good morning, guys.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Ron Epstein

You've obviously done a fantastic job getting airplanes out the door. Just wanted a follow-up on profitability however, one would think unless I'm thinking about it wrong that given the volume of airplanes that the company has delivered that profitability in the quarter would've been better at Boeing Commercial, Defense seemed to do wonderful. And then as we go into next year, without the volume of airplanes going out the door and given the overhead absorption that again, margins would be higher than what you guys are projecting them to be?

Greg Smith

Yeah. I mean, in the quarter Ron, 37 and 777 unchanged from quarter-over-quarter, so no change in margins there. And as I mentioned, we did have a block extension on the 37. This is really associated with period costs. As you know, we're seasonably high in fourth quarter around taxes and fleet support and just the amount of deliveries we have. And then some investments we've made across the business whether it takes several reliability or in some of the fleet management efforts. So I'd say, high in the quarter but not something that it would take forward from here.

Ron Epstein

Okay. Okay. And then one follow-on, if I may, in the defense business, we haven't talked heck a lot about that. Whether any contract close out one time types of things in the quarter that boosted margins there?

Greg Smith

Nothing significant.

Jim McNerney

No.

Ron Epstein

Okay. Great. Thank you.

Jim McNerney

Yeah. Okay.

Troy Lahr

Operator, we have time for one more question.

Operator

And that will be from Rob Spingarn with Credit Suisse. Please go ahead.

Rob Spingarn

Good morning.

Jim McNerney

Good morning.

Rob Spingarn

Greg, just on the improvement cost on 87, I think you said that you took cost down about 30% over the last 170 odd airplanes something like that?

Greg Smith

Yeah. 175.

Rob Spingarn

Right. So now I'm guessing with the unit deferred as it stands a little over $30 million. And I know there is some puts and takes and some things in that number that probably on aircraft specific. But I’m guessing airplanes are costing these days somewhere around $130 million. To get down to a breakeven level, I would imagine you need about another 20% cost reduction from here, give or take back to the envelope, can that be done inside of a year with the volume of airplanes we're talking about?

Greg Smith

Well, we continue to have plans to reduce the unit cost on the program run whether it's through our only internal efforts or working with the supply chain. So those initiatives are all laid out and now we got to go execute those and we have plans in place to do them. Again, this is stuff we know how to do. We've done it on other programs and we're putting obviously, additional focus on that and this again remains a priority for us.

So at the same time, we're continuing to invest in productivity as I talked about. As we get more mature with the production system, we see more opportunities to do things better and more efficiently but they taken in investment. So short-term investment -- short-term challenge but long-term significant gains for the program. And that's really where we got everybody focused.

Rob Spingarn

Okay. And then just a clarification from earlier, your guidance embeds the buyback that you've talked about?

Greg Smith

Yes. It embeds some point of buyback. Yeah.

Rob Spingarn

Okay. Okay. Thank you very much.

Greg Smith

You welcome.

Operator

Ladies and gentlemen, that completes the analyst question-and-answer session. [Operator Instructions] I will 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.

Tom Downey

Thank you. We will continue with the questions for Jim and Greg. If you have any questions following this part of the session, 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

And first go to Jon Ostrower with Wall Street Journal. Please go ahead.

Jon Ostrower

Good morning, guys.

Jim McNerney

Good morning, Jon.

Greg Smith

Good morning, Jon.

Jon Ostrower

Just a bit of clarity on the math that you guys presented on the 77 deferred production. Obviously, you're passing $26 billion on deferred cost with 1,100 airplanes to go in your accounting block. So you're booking a positive margin on 787. Just really flat out mean to zero those deferred costs, just really simple back on the envelope, you need to be generating $25 million in profit per plane starting today.

And obviously, there's a curve in there and you guys haven't hit the unit breakeven yet, so the $25 million figures, even higher than that. So I mean, at what point of the assumption that you're putting to your accounting efforts that are generating your record earnings. Ultimately, do they reflect the reality of the 787 programs cost reductions ultimately keeping the program stable?

Greg Smith

Well, Jon. I guess, I'd start with, as I said the fundamental milestone around the 787 being the cash positive than the deferred planning after we reach 12 a month, 2016 haven't changed. And the focus on the program hasn't changed. It's all around, again, being more efficient on each unit in capturing additional unit cost.

There are initiatives within the supply chain. Obviously, there is initiative within our factory and we're working to capture those, and continue the journey on the successful productivity we have in the program today. That's what everybody is focused on, ultimately leading to again cash positive in 2015.

Operator

Our next questions from Julie Johnsson with Bloomberg News. Please go ahead.

Julie Johnsson

Oh, hi all.

Jim McNerney

Good morning.

Julie Johnsson

Congrats on a great quarter.

Jim McNerney

Thank you.

Julie Johnsson

Just wanted to follow up on something that we saw late in 2014, Zodiac had some issues with C deliveries and certification and I know it affected some 787 deliveries. And they had cautioned that it's taking longer than they had anticipated to straighten some of those issues out. Just wondering, if you see any trickle over into Q1 and if this is potential, a warning sign or red flag as you prepare to ramp up 737 and 787 production.

Jim McNerney

I think there is no question that seat supply did impact some deliveries and some fall in our production system. We are working through it now. We see it being resolved this year. We regret any impact it has had on our customers but it’s all been within our plans and within our guidance as we work through it. I think the supply base is adjusting to these higher volumes, both 787 and anticipated higher volumes and another programs and I think they'll be ready.

Operator

And next we’ll go to Doug Cameron with Wall Street Journal. Please go ahead.

Doug Cameron

Hi. Good morning, everyone.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Doug Cameron

The quarterly defense question, Jim, you got some -- you got funding for some old Growlers in the 2015 budget. What are your thoughts of the timing for the future of this impious line and does it depend at all on what happens with the Long Range Strike contest, which is upcoming?

Jim McNerney

Yeah. I mean, I think the statuses where true costs to the end of the decade on F-15s which is a big pieces of St. Louis. We've regained momentum on F-18s. I think in the minds of many, there remains a need beyond that order. So there is a good chance that that line could continue at least to the end of the decade. Although, we do not yet have firm orders that's an assessment. And there is no question that when we win Long-Range Strike and I'm sounding as confident as I can, because I do believe we will, that it will solidify the future of St. Louis for many, many years to come.

Operator

Our next question from Dominic Gates with The Seattle Times. Please go ahead.

Dominic Gates

Hello, gentleman. Question for Greg. You mentioned delivering some early 787s this year, early build 787s. There is something like 11 airplanes. Mostly the Terrible Teens as they are called that have been sitting there for four years and more. And about a year ago, a couple of customers seemed that those were earmarked for a pulled out Transaero was one of them.

So two questions about -- two parts to a question about that. First of all, is there any chance those have to be written off or sold so cheaply that it's almost the same thing and we get some accounting charges for those plans? And then secondly, it looks like you want to deliver maybe three this year, maybe three next year, very slow output. Is that a deliberate strategy because of the hefty unit costs, every time one of them enters the delivery stream?

Jim McNerney

Not at all. The timing of the deliveries is really solely tied to when we finish the work on the aircraft. And frankly it's a matter of prioritizing the teams that have taken them off the production line and moving them over on the early build. So that is the only thing tied into that. It's really just about finishing up the aircraft for the customers.

With regards the aircraft themselves, we continued to see a viable market and we are in active discussions with many customers related to those airplanes. So that is fundamentally how we're handling the EMC airplanes and you are right. I mean, we are work through them in a prudent fashion and we do expect to deliver three or four this year.

Operator, we have time for one last question from the media.

Operator

And that will be from Christopher Drew with the New York Times. Please go ahead.

Christopher Drew

All right. Good morning. Jim, you mentioned space and I was just wondering if you could talk us a minute about what it's like to compete with SpaceX with their lower cost and aggressive lobbying and political clout in Washington? In various ways that you, Boeing and the United Launch Alliance compete with them and what you see happening in the long run in some of these areas?

Jim McNerney

I have respect for SpaceX. I think they offer more limited mission types than we do at this stage. But their combination of focus on gaining capability at improved cost is going to benefit the market. It will make us a better competitor in some segments where cost has become more important. I suspect that we will retain the lead in those segments where often manned type missions that go a long way into many places we've never been before. I see the advantage, we have there will sustain itself for a long period of time.