Operator

Ladies and gentlemen, thank you for standing by. Good day and welcome to the Boeing Company's Fourth Quarter and Full Year 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 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 2013 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 will turn the call over to Jim McNerney.

Jim McNerney

Thank you, Troy and good morning. Let me begin today with some comments on our strong operating performance and strategic progress in 2013 followed by an overview of the business environment we see moving into 2014. After that, Greg will walk you through the details of our financial results and outlook.

Now, let's move to Slide 2. Strong fourth quarter results across our company capped the year of outstanding core operating performance and significant business achievement for our team. We successfully delivered on our strategies to convert our record backlog into profitable growth, executed well on commercial and defense development programs and drove productivity and affordability gains throughout our business and enterprise functions. For the full year, we reported record revenue and earnings, improved operating margins, increased cash flow, a large portion of which was return to shareholders and we reached our highest product backlog ever now totaling $441 billion on net orders from $135 billion.

We also continue to retire legacy business risks, including settling the longstanding A-12 litigation with U.S. government that dated back to 1991. Our commercial airplanes business reported record revenue of $53 billion for the year on an industry record 648 total deliveries including the highest ever deliveries for the 737, 777 and 787 programs. We successfully executed our planned production rate increases and expanded our market share leadership in deliveries that we regained in 2012. In a strong year for orders across the industry we captured record gross orders of 1531 airplanes and net orders of 1355 airplanes which increased our backlog to 5080 jets with a record $374 billion. Commercial airplanes also achieved key development milestones in 2013 including firm configuration of the 737 MAX-8 and to start our flight testing of the 737 MAX-9 and we solidified our long term market leadership in the high value twin-aisle segment with record orders and commitments in launching both the 787-10 and 777X.

On the other side of our business despite continued domestic budget headwinds and tough global competition Boeing Defense, Space & Security also had a very strong year with revenue of $33 billion on increased deliveries of aircraft and satellites, higher operating margins, significant program wins and clear progress in further improving productivity and increasing our competitive position. Key contract awards captured during the fourth quarter included a $750 million order from the U.S. airforce for engineering services on the B-1 bomber fleet, a multi-year service support contract for the B22 and an option exercise by Inmarsat for a fourth satellite.

Noteworthy program milestones in the quarter included fuselage and wing joint on the first KC-46 tanker. The P-8A achieving initial operating capability within 10 days by the way of a target established more than 10 years ago and successfully launching the first Inmarsat-5 satellite. Strong operational performance throughout the year driven by our relentless focus on business execution and competitiveness, increasing cash flow and our confidence in the future all supported the new $10 billion share repurchase authorization and 50% increase in the dividend we announced in December.

In summary, 2013 was truly a milestone year for Boeing. Thanks to the tremendous effort of our employees, our partners and our customers all around the world. With record revenue in earnings, substantial cash generation and progress on our path to continued growth and profitability through product rate increases execution on development programs increased productivity and further growth in our record backlog we strengthened our market position and our outlook for the future.

With that let's turn to the business environment on slide 3. Global customer demand for our fuel efficient and value creating commercial airplane family remains high. As evidenced by the 508 net orders booked during the fourth quarter and 30 added so far this month. Global passenger traffic trends are strong. Air cargo traffic is gradually improving and appears more stable than we have seen over the past year. Recent 747-8 Freighter orders from Cathay Pacific Airways and Silk Way Airlines highlight the airplanes superior value proposition and potential as market conditions improve in the cargo area. The placement of older airplanes in fare of new models that offer compelling operating economics and increased fuel efficiency continues at a healthy pace. Many airline customers around the world also are expanding their fleets to support the ongoing growth in passenger traffic. Deferral request from customers are still running well below historical average while request to accelerate deliveries continue at a steady and quite frankly encouraging rate.

Overall commercial aviation remains a very attractive near and long term growth market and our product strategic advantage continues to position us for significant and sustained growth. Launch of the 777X accepted to buy airshow was the largest launch by dollar value in commercial jetliner history. With commitments in firm orders totaling 259 for this game changing, fuel efficient family of airplanes. The airplanes all new composite wing, flight deck and flight controls leverage technologies developed on the 787 and provide customers with unprecedented operating economics. We're pleased that our employees who are members of the International Association of Machinists & Aerospace Workers, 751, ordered to extend their contract from 2016 to 2024. This solidifies production for the 777X in the Puget Sound region within our broadened geographic production and engineering footprint. In an environment, where customer expectations for quality, reliability and affordability have never been higher, contract extension ensures 10 years of business continuity and further improves our productivity and competitiveness while still also providing our workforce highly competitive wages and benefits.

With the firm backlog for our current 777 family of more than 300 airplanes coupled with strong customer demand and airplane availability this decade, we have high confidence in the successful transition to the 777X. 777 is an outstanding performer and a valuable asset. Based on buying patterns among wide-body customers, we expect the production bridge to be filled over the next few years. The 787 production system is now operating at the 10 per month rate in final assembly, including both the Dash 8 and Dash 9, which entered production last year. Flight testing of the Dash 9 is progressing well with first delivery on track for mid-year.

The in-service of 787 fleet, which now totals 115 airplanes making more than 200 flights per day, continues to set new records for fuel efficiency and passenger satisfaction. While there is still more customer by customer variation than we would like, we have made good progress improving dispatch reliability, which is now up around 98% on average. More work to do on that one, but we are moving closer to the goal line. In the single-aisle segment, airline interest in our new fuel-efficient 737 MAX remains high with nearly 1,800 cumulative orders to-date. Robust customer demand for the 737 family led us to the planned rate increase to 42 per month in 2014 and the announcement of an additional production rate increase to 47 a month in 2017. Recently, Air Canada recognized the value of the 737 MAX by committing to 61 airplanes and becoming a new Boeing narrow-body customer.

Turning to Defense, Space & Security, we are pleased that a fiscal year '14 budget agreement has been signed and fiscal year '15 deliberations have progressed providing some near-term sequestration relief for the Department of Defense and our other U.S. government customers. This averts another disruptive government shutdown and provides our customers at least a near-term planning horizon. That said we remained very concerned about longer term budget uncertainty, the ultimate consequences of sequestration on national security and the potential devastating impact to the nation's industrial base. Fiscal year '14 budget strongly funds core Boeing production programs like P-8, F/A-18, rotorcraft and satellites as well as key development programs like the KC-46 Long-Range Strike and the space launch system. It also provides advanced procurement funds in support of continued production of the F/A-18 line into 2015. Support for critical Boeing national security programs continues to be driven by strong on cost, on schedule performance that customers expect to meet their needs in a more for less world.

Our Defense, Space & Security portfolio of reliable, proven and affordable systems and services remains a competitive advantage in today's budget environment. We also continue to target organic growth through investments in technology and innovation in areas such as commercial derivatives, space unmanned systems, intelligence, surveillance and reconnaissance, cyber security and a few critical future large-scale programs identified as priorities by our customers like Long-Range Strike new class and the T-X trainer. Combined with our market-based affordability initiative, these investments strengthened our long-term position and differentiate us from our competitors, many of whom have scaled back R&D in these more austere times. And we continue to leverage our unique one Boeing global advantage and our efforts to mitigate domestic market pressures.

International Defense, Space & Security business represented more than 30% of BDS revenues during the quarter and remains just under 40% of the BDS backlog. We also continue to strengthen our competitive position in all markets by driving further efficiency, quality and productivity to our own offices and factories and through our partnering for success initiative launched last year. We're seeing tangible benefits of our partnering for success work with suppliers recognizing the growth opportunity that's available to those who fully embrace its objectives.

These productivity efforts along with an enterprise wide focus on reducing spiraling cost of development programs remain top priorities for improving our program profitability and enabling investment in future growth. One final note before I hand it off to Greg. In December we announced the series of personal moves to strengthen our overall leadership structure as we scale up for future growth and competitiveness. We promoted Ray Conner and Dennis Muilenburg to Boeing Vice-Chairman and named Dennis Boeing President and Chief Operating Officer.

We also appointed Chris Chadwick, President and CEO of Defense, Space & Security replacing Dennis and named Shelley Lavender of Boeing Military Aircraft replacing Chris. While assuming some corporate duties as Vice Chairman Ray's primary focus will remain on delivering the growth and profitability at commercial airplanes. Dennis has joined us in Chicago where he is working with me in the day to day oversight of the company's business operations with a particular focus on growth enablers including our global relationships and development program performance.

All four are highly capable; high performing leaders with demonstrated track records and will continue to strengthen our company and drive business results and just to be clear I'm not planning to retire anytime soon. So while you may be seeing more of them it doesn't mean you will be seeing less of me.

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 4 and we will discuss our full year results. Revenue for the year was a record $87 billion reflecting 6% growth from last year driven by higher deliveries across our commercial and defense businesses.

Core earnings per share was $7.07 for the full year representing a 20% increase. The increase in EPS was driven by strong operational performance across the company. Operating cash flow for the year was also very strong at $9.7 billion before the $1.5 billion discretionary pension contribution. The robust cash generation was driven by higher deliveries, solid core operating performance as well as favorable timing of receipts and expenditures both of which will ultimately factor into 2014 and expected cash generation.

Moving now to our quarterly results on slide 5, fourth quarter revenue increased 7% to 23.8 billion driven by again strong commercial airplane and defense deliveries. Core operating margin in the quarter was 7.7% excluding the $406 million non-cash charge associated with the A-12 settlement core operating margins increased to 9.4% in the quarter primarily driven by favorable mix in commercial deliveries and solid productivity gains of both businesses.

Core earnings per share increased 29% to a $1.88 in the quarter on higher volume and continued strong operational performance. The $0.28 benefit from the recent IRS tax regulation change for research credits partially offset the $0.34 earnings per share impact from the A-12 settlement.

Let’s discuss commercial airplanes now on slide 6, for the fourth quarter our commercial airplanes business increased revenue 4% to $14.7 billion on a 172 airplane deliveries and increased operating margins to 10.3%. Higher volume, favorable delivery mix and strong performance was offset by the anticipated increase in fourth quarter R&D spending and higher 787 dilution.

Commercial airplanes revenue for the year was a record $53 billion an increase of 8% as we successfully executed on our planned production rate increases resulting in record deliveries totaling 648 aircraft.

Commercial airplanes captured $43 billion of net orders during the quarter, an increased backlog to a new record of $374 billion in over 5,000 aircraft. Gross inventory for the company included $33.1 billion related to the 787 program, an increase in the fourth quarter of approximately $1.7 billion. This increase was primarily driven by the higher planned inventory and to support the production rate increase to 10 per month and the introduction of the 787-9 program. Included in the work-in-process inventory are deferred production costs. The deferred balance for the 787 program was $21.6 billion at the end of the fourth quarter. We continue to see progress in key operational performance indicators and unit cost as we further implement production efficiencies and stabilize the overall production system on the 787 program.

Unit cost is improved approximately 20% over the past year on the 787-8, but we are introducing the Dash 9 into the production system and at the same time increasing production rates by 40%. Overall, the team has continued to make good progress in reducing production flow times and reducing part shortages at both Everett and Charleston facilities. These are key enablers to reducing unit costs and achieving planned production rates and deliveries. We are also seeing good initial progress on the 787-9, where we have seen 25% improvement in unit costs from the first airplane to the fourth airplane to roll out of the factory. While we still have a lot of work ahead of us on the 787 program, we anticipate continued improvement as production stabilizes at 10 per month rate. We are also remained focused on improving program performance and successfully completing the flight test program on the 787-9 and the development of the 787-10.

Let's turn now to Defense, Space & Security results on Slide 7. Fourth quarter revenue on our defense business increased 6% to $8.9 billion and operating margins were 10.8% driven by higher volume, delivery mix and improved performance. As a result of our continued focus on productivity and driving market-based affordability efforts, we have had significantly reduced our cost structure and we are on track for additional reductions that will further enhance our productivity and strengthen our competitive position going forward. International customers accounted for 33% of our defense revenue in the fourth quarter and we continue to drive towards sustaining 30% of defense revenue from international markets going forward.

Revenue at Boeing Military Aircraft increased 9% to $4.4 billion in the fourth quarter primarily driven by higher deliveries. Strong operating margins of 10% in the quarter were due to increased volume and solid operating performance. Network & Space systems revenue at $2.3 billion increased 12% primarily driven by higher sales on ground-based missile defense and Space Launch Systems. Operating margins were 10.3% in the quarter resulting from continued focus on execution and productivity along with favorable delivery mix in the quarter.

Global Services & Support reported fourth quarter revenue at $2.2 billion and solid operating margins of 12.8%. Defense, Space & Security reported a solid backlog of $67 billion with 37% of our current backlog representing customers outside the United States.

Let's now turn to Slide 8. Boeing Capital net financing portfolio declined to $3.9 billion on normal runoff that exceeded new aircraft volume. Fourth quarter unallocated expense from core operations of $532 million was primarily driven by the $406 million charge associated with the A-12 settlement and an increase in deferred compensation expense driven by higher stock price and overall stock market performance.

Let's now turn to cash on Slide 9. Operating cash for the fourth quarter was $1.4 billion. And the strength of our cash flow was driven by higher volume, strong operating performance and timing of receipts and expenditures. With regard to capital deployment, we paid approximately $400 million in dividends to shareholders and repurchased 7.6 million shares for $1 billion in the fourth quarter. For the full year, we paid $1.5 billion in dividends and repurchased 25.4 million shares for $2.8 billion.

Let's now move to cash and debt balances on Slide 10. We ended the quarter with $15.3 billion of cash and marketable securities. Our cash position continues to provide solid liquidity and positions us very well going forward. Again, our financial strength allows to continue to invest in key growth areas of our business, return cash to shareholders and execute on our balance cash deployment strategy going forward. Let's turn now to slide 11 and we will discuss our outlook for 2014.

Our guidance for 2014 reflects solid core operating performance and higher deliveries at commercial airplanes business while reflecting impact of the current DoD defense budget environment.

Core earnings per share guidance for 2014 is set between $7 and $7.20 per share. We expect first quarter revenue core EPS and cash flow to be the lowest during the year based on timing of deliveries and phasing of expenditures and advances.

First quarter core EPS is estimated to be approximately 20% for our full year earnings. On a GAAP EPS basis first quarter is expected to be impacted by a $140 million non-cash pension curtailment charge associated with the IAM contract extension. Again this will not impact core EPS.

The financial effects of this agreement include the initial cash payment associated with the approval of the extension and the enhanced employee benefits as we transition from a defined benefit pension plan to a defined contribution plan.

The long term benefits to both employees and the company are clear as the unprecedented 10 year agreement further derisk the business and 777X production providing a stable foundation for productivity improvements and employment of our highly skilled workforce as we strive to remain competitive. Revenue for 2014 is forecasted to increase between 87.5 billion and 90.5 billion.

Our commercial airplane revenue guidance is expected to be 57.5 billion to 59.5 billion reflecting approximately 10% growth as we execute on our record background. 2014 commercial delivery forecast is between 715 and 725 airplanes, this includes approximately a 110 deliveries from the 787 program including 17 new custom introductions and additional flow time to support early introduction of the 787-9.

Commercial airplane operating margin guidance is approximately 10% on improved operating performance offset by greater dilution impact on higher 787 deliveries and further investments to support future business growth. Defense, Space & Security revenue guidance for 2014 is between 30 billion and 31 billion reflecting the continued challenge defense environment partially offset by ongoing international growth.

Operating margin guidance at our defense business is forecasted approximately 9.5% reflecting continued productivity efforts offset by impact of lower volume and delivery mix. We expect research and development spending for 2014 at approximately 3.2 billion primarily driven by 737 MAX, initial 777X and 787-10 development along with continued key strategic investments in our defense business.

Turning to cash flow, we expect operating cash flow before pension contributions to be approximately $7 billion reflecting higher 737 and 787 deliveries and continued strong operating performance. The cash flow in 2014 also reflects favorable timing of receipts and expenditures last year. Higher cash tax payments associated with the improved 787 unit cost in 2014 as well as fewer 767 deliveries as we efficiently transition to tanker production and then finally includes the payment of the signing bonus to the IAM employees associated with the contract extension.

Our required [ph] pension contributions for 2014 will be minimal while we aggressively look for additional opportunities to reduce future pension liabilities we continue to proactively manage the funded status and anticipate a $750 million discretionary pension contribution in 2014.

Regarding our cash deployment, in December we announced the next steps in our balance cash deployment strategy with the new $10 billion repurchase authorization adding to the 800 million left in the prior authorization at year end. We anticipate completing the repurchase authorization over the next 2 to 3 years and further more we increased our quarterly dividend 50% at the end of the year. Returning cash to shareholders along with continued investments to support future growth remains a tough priority for us.

So overall strong 2013 results were driven by our continued focus on program execution, production rate increases and productivity improvements. We expect this performance and focus to continue into 2014.

Now, I will turn it over to Jim for some final thoughts.

Jim McNerney

Thank you, Greg. 2013 was a very successful year for Boeing. We continued to convert 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 into 2014 remained clear. The profitable ramp up in production on our commercial airplane programs, executing on our commercial and defense development programs, driving productivity and affordability throughout the enterprise, continuing to strengthen the position in our defense business with investments in growth areas amid further international expansion, and importantly, providing increasing value to both our customers and our shareholders.

Now, we'd be glad to take your questions.

Question-and-Answer Session

Operator

(Operator Instructions) And our first question is from Doug Harned with Sanford Bernstein. Please go ahead.

Doug Harned - Sanford Bernstein

Thank you. Good morning.

Jim McNerney

Good morning Doug.

Doug Harned - Sanford Bernstein

I may have two parts in this, but on today maybe you gave guidance for '14 revenues, earnings, cash, they were less than we were expecting, I think others too. Our assumption was that there is some, always some conservatism here, but this appeared to be tied to lower than expected delivery rates. And what I wanted to understand is on the 787 you are now at 10 a month, but you still have a large number of Change Incorp airplanes that should be delivered, so the 110 guidance seemed low to us. And we are trying to understand how you expect 787 production and deliveries to evolve over this year in 2015? And then also how we should be looking at the ramp to 42 a month on the 737 and what that means for production and deliveries, so that we have a good sense of where you are at in terms of these delivery rates? And also just if you expect were these numbers are the delivery rates you are looking at, are those consistent with what you were hoping for say a few months ago?

Jim McNerney

Okay. They were, Doug, let me just start there and then let me give you some color on 87 and 47. On the 87, I think there is one thing to keep in mind is although we are executing at 10 a month, we are not delivering at 10 a month yet. So you got some transition there of going from 7 a month on the delivery basis to 10, but you got to factor that. And there is a handful of Change Incorp airplanes that are in our guidance going forward for this year and frankly less than last year. So you are taking that into account and then some final deliveries at the end of the year as we work with customers on their ability to take certain amount of airplanes within certain timeframe. So this is all within our expectations. Team is executing very well as you saw from last year's deliveries, very focused on meeting these objectives in 2014. As you look to 2015, I think you will – if you just kind of calculate on production rates, you will certainly get closer to delivery expectations, but certainly right now, we are focused on meeting our objectives for 2014 and getting these airplanes into the hands of our customer.

On the 737, we are making great progress, 38 a month and stabilized at 38 a month. You look at the operating metrics around us operating at 38 a month, we have record low shortages. They are improving flow time on final line and making good progress as we look at production readiness getting to 42 a month. And obviously that will come into play a little bit later this year, so you won't get the full benefit of the 42 through the balance of the year. But again, that team is executed flawlessly and making rate breaks, keeping the production system stable at the same time looking for opportunities to improve. So that's kind of how we see at least 87 and 37 deliveries going into this year.

Doug Harned - Sanford Bernstein

And can you say when that transition is on the 37? When you're expecting the BA-42 and what the implications are for deliveries this year.

Jim McNerney

We will break 42 here in around second quarter on a production basis and then the deliveries will start to flow out from there and I think you saw in the 87 we just pushed our first airplane out at 10 month earlier this week. We're making good progress.

Operator

And next we go to Rob Spingarn with Credit Suisse. Please go ahead.

Rob Spingarn - Credit Suisse

So I would like to follow on to Doug's question but specifically with respect to the cash flow guide given that Boeing is very much cash flow story today and again understanding the guide maybe somewhat conservative but the market is actually I think reacting to the other option which that is just disappointingly low. So beyond the delivery discussion we just had, Greg can you simply this to framed 2014 cash flow in a longer term context understanding there were some acceleration in the '13 but that's just simply going to make some investors wonder if '13 was peak and if it's not can you help us figure out where peak is, when and how we get there and perhaps within that could you speak specifically to 787 cash flow profile over the next few years?

Greg Smith

I will give you some additional color kind of going from '13 to '14 because that is important as you think about timing because we certainly had some very favorable timing late in the year that was really more expected to be in '14 so you kind of got a step back and look at the guide, recognize where we're in the year and then at the same time look at 2013 performance and as you saw from the guidance we issued we far exceeded that. So timing is a big aspect of this from '13 to '14 as well as cash taxes. So as we continue to make improvements on 787 unit cost obviously we will pay more in cash taxes and that will continue going forward.

Now that will also be long term, be more than offset by us continuing to execute on the rate increases we have talked about and continued focus on 787 unit by unit profitability and that's ultimately going to continue to drive the cash flow profile over the long term. Another moving piece as I mentioned in my remarks from '13 to '14 is 767 deliveries which again planned out lower production rate as we successfully transition from commercial on to tanker transition. So again well planned out, we know we need to do there and then from there really lower volume at BDS but those are really the big moving pieces from 2013 to '14.

Now to answer your question kind of more long term and I partially address this earlier but the fact is again when you step back and think about you know our production rates and what we need to do to execute on those rates and again 787 unit by unit profitability that's what's going to drive the cash flow profile throughout again kind of over the long term so we feel very comfortable with that and I think as you saw by our cash deployment announcements on the repurchase and the dividend you know we have the confidence in our ability to do that and return good portion of that cash back to shareholders.

Rob Spingarn - Credit Suisse

So Greg that presents a fairly sizeable bridge from ’14 to ’15 and beyond but you feel comfortable that peak is somewhere in that future? We shouldn’t be looking back at ’13?

Greg Smith

No I would tell you, you know certainly you know think about where we’re in deferred and I would kind of put the peak more out in the 2016 going forward timeframe and again that’s I think the production rate increases over that time as we talked about on 87 in particular and then the unit cost progression and improvement on 87.

Operator

Our next question is from Joe Nadol with JPMorgan. Please go ahead.

Joe Nadol - JPMorgan

On the margin side within BCA if you net out R&D and net out dilution from 87 and 47, looks like you had a pretty good quarter sequentially? Usually you have a step down from Q3 to Q4 and period cost I guess at year end and that didn’t happen this quarter Greg? So, as we think about the margin profile maybe you can talk a bit about what happened in Q4, why you didn’t have that step down and why we shouldn’t think that your margin could be quite a bit above what you’re guiding for 2014.

Greg Smith

Yeah I think Joe certainly the performance on the core programs was the biggest driver in fourth quarter, particularly 37 and 777, so they executed very well. To your point, very tight controls over the period expense, R&D and other elements that supporting a bit, so just good solid execution from the team on there.

As you look forward into 2014, certainly we have the dilution of the 787 as being one of the bigger contributors at the same time, a slightly higher R&D as we peak out on MAX, but really start to get ramping up on Dash 10 and 777X. And then again slightly more forecasted on period expense as we double our production on 87 and get more customers in our fleet and how we are supporting those customers initially as they take deliveries. So those are kind of the moving pieces. Team is very focused on driving productivity. We are continuing to make investments on streamlining. I talked about the production flow on the 87 and the 37, but we are continuing to look for further opportunities there and making more investments frankly over this period in things like automation and productivity tools than we have in the past. So team is very focused on executing and meeting these objectives.

Joe Nadol - JPMorgan

It seems like partnering for success probably played a pretty – it’s playing a pretty big role in the margin improvement and I was wondering if you could maybe confirm that and talk about what inning you think you are in of the process?

Jim McNerney

Yes, I think we are pretty much in the same timeframe we talked before. We are at the beginning. We are at the early stages of this. We have certainly, you and I have talked about 37 margin, the 777 margins and particularly 37 through the transition of the NG and the MAX and that certainly has helped. But it’s early on, we have got people obviously that have signed up and we have great partnerships in place to execute that going forward, but we got a lot of opportunity and a lot of work to do from here. And I think again we have good plans in place and we are really engaging with the suppliers and really trying to figure out how do we collectively work together to drive additional productivity and profitability. And again I think we have got some good plans in place to go execute that. It’s going to take time.

Joe Nadol - JPMorgan

Thanks.

Jim McNerney

You’re welcome.

Operator

And next we have Carter Copeland with Barclays. Please go ahead.

Carter Copeland - Barclays

Good morning gentlemen.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Carter Copeland - Barclays

Just to expand a little bit on that Greg on the 777 program margin given what's going on there with the transition.

Greg Smith

Yes.

Carter Copeland - Barclays

Now, Jim you said that you expected to sell that bridge out over the next couple of years, but obviously there is – there are price considerations associated with that, non-recurring costs associated with that and then on the other side partnering for success and productivity, you guys had a – it seems to be the right assumptions for the 737 transition. And in your comment, in your response to Joe's question you imply that you are appropriately protecting to those items and you think that the 777 margin can be maintained and expanded or is there some risk there due to the items I mentioned?

Jim McNerney

Well, I think the big picture here is that a fewer stronger customer franchises out there than the 777 franchise. And there are customers who have invested heavily in this airplane, who are beginning to order the new airplane out in the future. And the reason is it represents incredible productivity versus almost any alternative and whereas we were building a bridge on the 37 in competition with an airplane that was somewhat comparable depending upon who is making the argument. With the 777, we are building a bridge with a franchise that is pretty singular in its strength. And so we do anticipate inability with these customers who are driving the productivity associated with it and the performance associated with it. We anticipate being able to build that bridge over the next number of years as we approach 2020 and then – and beyond with the new airplane. And it's all about what the alternative would be as they are trying to build lift in the meantime. And so we are working with them on combined orders for the current 777 as well as the new one. And we anticipate at least the same kind of result that we had with the 37. So we are working it and we don't think the economics of our current projections don't suggest that the economics is going to change dramatically. Now are we building a hedge with partnering for success and driving internal productivity? That's the way we live life around here okay? Now the partnering for success will be hitting and some would say this is coincidental but we will be hitting it's mid-stride right around the time that the bridge is being implemented and that's not by accident.

Operator

And we will go to Howard Rubel with Jefferies. Please go ahead.

Howard Rubel - Jefferies

I want to go Jim can you talk a little bit about the strategic partnering that you've done with the union?

Jim McNerney

Yes.

Howard Rubel – Jefferies

And could you elaborate a little bit more on how you have tried to form a partnership with them when what we see is a little bit of angst over this contract extension? Maybe just to put it a little bit more I mean you're making a big investment by paying each member $10,000 today and so what do you expect to get tomorrow?

Jim McNerney

Well Howard this is a good question I mean I think again just starting at 50,000 feet here for a second, we're exiting a period where every few years we had a dramatic event and we're entering a period of 10 years of stability. So that's the big picture. Now having said that the (indiscernible) was close there, there were emotions on both sides of equation but I think eventually everybody centered on this huge business opportunity we have got with the 777 and we came together. Now, just as in the past every few hours we had to go through a period of rebuilding relationships we now have an opportunity to do it for a 10 year period and I think Ray and his team are reaching out and I would also say that the unions, the union out there is also reaching out. I think both sides I'm seeing signs of both sides seeing the size of this opportunity through the drama, heartfelt as it was and there are still some emotion but I think we're now focused on the business opportunity. There is more interaction right now between IAM-751 and the management in Seattle than there has been in a long time. I mean I think there is they are beginning to come together. So I think there will be a period where we have to work together where emotions will stay play a rule but I'm convinced for the 10 year opportunity in front of us like we have got I think fairly quickly we're going to come together and capitalize on that.

Howard Rubel – Jefferies

Well follow-up if I can a little bit. I mean can we see you know either some change I mean obviously you offer a lot of new people and opportunity to enter the workforce and that will lower the average age over time and that's constructive development and also not spending all of the capital to move a plant somewhere else. Could you at least provide us with a little bit of indication of how that's helped competitiveness of the Boeing company?

Jim McNerney

Yeah I think with the agreement that we were able to come to with the union that became the best opportunity for the company. You're right it's capital avoidance versus moving the work, it is using some of the best very best aerospace workers in the world that don't have to go down the learning curve to get things done. A very committed set of folks around the Boeing brand and around our customer. So this was the right answer for both economic, risk and leadership reasons. Now having said that if we didn't come to that answer we were prepared to move the work not withstanding some of the risk I mentioned but given the agreement I think this is the right answer for the company and it will benefit us going forward both with our customers and economically.

Operator

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

Cai von Rumohr - Cowen & Company

So you know to get back to one of the early questions, cash flow guide for '14 is considerably below I think where most people were. So could you give us some more granularity in terms of some of the key issues, for example, 787 deferred, how much are they likely to be up? Your 787 tooling was up more than I guess than the fourth quarter, how much is that up? Do you have to pay the $400 million on the A-12? You mentioned the IAM, how big is the cash bonus? And then some color, if you could on progress payments and excess advances? Thanks.

Jim McNerney

Okay, Cai, I will take a shot of that. I don't think I captured all of that, but I am sure you catch me if I don't. Deferred, there is no change in deferred and then that kind of profile as we have said kind of reaching the $25 billion by late '14? So that has not changed in from what we talked prior. And with the '13 to '14 the biggest driver certainly be in timing and as I said we had some real favorable timing in the fourth quarter that initially we expected to be in early '14. The cash taxes, I talked about that, but again when you step back, the cash taxes on the 787 are the result of improved performance on the 787. So continuing to kind of come down that learning curve and improving unit by unit, we are going to pay more in cash taxes. And so there is some headwind in ‘14 that wasn’t in ‘13. And then as I said making the successful transition over on the tanker will have fewer airplanes we will deliver on the 767 this year from last year. So those are the big moving pieces. And then everything beyond that is more rather smaller than those pieces. So that’s what it is. We understand it. Team is very focused on cash management as you have seen over the last couple of years and how we have executed on meeting our objectives and quite frankly exceeding them a couple of years in a row. So it’s early, we are going to stay focused on it. And just one other point, you mentioned A-12, that was a non-cash, so there is no impact there. But again, looking forward, it’s all about us meeting our production rates and coming down on that learning curve on the 787. Those are the two biggest elements as we look forward in continuing to grow cash flow going forward.

Cai von Rumohr - Cowen & Company

So you had also mentioned the investment in the 87, your 787 tooling was up in the fourth quarter, is that going to be up and how big was the IAM bonus and IAM pension?

Jim McNerney

Yes, I don’t expect the tooling to be up. There was a one-off in there related to suppliers meeting summit, key performance objectives. So I wouldn’t see that growing over time. The IAM agreement was about $300 million.

Cai von Rumohr - Cowen & Company

Thank you.

Jim McNerney

You’re welcome.

Operator

Our next question is from Peter Arment with Sterne, Agee. Please go ahead.

Peter Arment - Sterne, Agee

Yes, good morning Jim and Greg.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Peter Arment - Sterne, Agee

Hey, Greg can I just circle back quickly on the 787 delivery guidance, you mentioned there was going to be less of the Change Incorp aircraft delivered this year?

Greg Smith

Yes.

Peter Arment - Sterne, Agee

Is that just – is it driven by the customer timing and acceptance? Are you still struggling to complete some of the early ones? And then just related to that, if you could also address how things are going in Charleston in terms of there has been some articles written, just reducing the flow times, the part shortages Jim mentioned, I think you have made some progress, but you are talking about adding some people, maybe you could just provide a little more color?

Greg Smith

Yes. Well, let me maybe start there and then I will bring you back to deliveries, but certainly when you look at flow time, you look at unit cost at Charleston whether it's final, mid or at, it made great progress there. And the team has been very focused on continuing that progress going forward. We have experienced some – a higher number of jobs behind the schedule in the mid-body section and that's really due to if you think about it you are introducing the Dash 9 at the same time going to 10 a month. And just a reminder, a most significant structural change in the airplane going from a Dash 8 to a Dash 9 is in the mid-body. So to address this, we have applied additional resources, we know how to do this and we will get those jobs back to what we view as a more acceptable level. So we got mitigation plans. They are building at 10 a month. And as you have seen, we just finished that first airplane at 10 a month. So we know what to do here. We got the right people addressing it. And this is again, this is just all part of bringing this program up to a wide-body rate that obviously has never been done and they are doing it successfully. But there is going to be points in the production system where you are going to have to put additional resources from time-to-time and this just happens to be one of them but stepping back from there that team is doing a great job as is obviously the team endeavor [ph]. On the 87 deliveries for the year yeah there is fewer EMC, some of that's customer, some of that is that the airplanes that are in flow this year are longer flow. So they have more outstanding work to be completed and some of them had in 2013 so you kind of got to take that into consideration and then at the same time as I mentioned you have got additional flow in there for Dash-9 again progressing well but as we got to introduce that into the production system and get the flow time being equal on the Dash-8 to the Dash-9 there is some transitional period there and then of course on top of that we're introducing 17 new customers in 2014 so there is some consideration for that through the 2014 delivery.

So those are kind of the big moving pieces within 87 deliveries.

Operator

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

Ron Epstein - Bank of America Merrill Lynch

Just wanted to circle back on this kind of came up on a couple of previous question but maybe from a different point of view. When we think about maybe a little bit of a longer term picture and we have got the transition between the 737NG to the 737 MAX. We have got the R&D program ahead of us on the 777X. How should we think about that as a potential impact on margins? I mean do you expect a smooth transition I guess first part of the question between the NG and the MAX that would be interesting and then two, it seems like despite a scope of the project even though it's a derivative a new big wing on a big airplane but that's I don't know $8 billion plus or minus a couple of billion sized program right? So, how should we think about those as headwinds in the future?

Jim McNerney

Well Ron I will take a swing at that one. I mean my view is that the next 10 years are significantly derisked when compared with the previous 10, okay? And why do I say that? You mentioned derivative elements in the new and the two big programs lie in front of us I would add to Dash-10 to that 787-10, technologies harvested largely from the 787s that have now matured. Lord knows we went through the maturational process not as elegantly as we would have liked but we're now in a position that we can move those technologies into our new platforms and so it is a huge opportunity because the economics of a new 777 the Dash-10 and the MAX are very strong, customer acceptance as you have seen is very strong and the risk that we will absorb in developing them as well as introducing them into production is I would characterize it as significantly less than we have had over the last 10 years and now that doesn't mean that these are free throws okay? But just more specifically on a 37 I mean it's basically the same line, there are some changes to the structure obviously and certainly the engine build up and the engine itself is different. 777 will also use the same line you’re right, the developing the wing is something that lies in front of us but it's our fourth generation airfoil with the composite materials [ph] we’re going to use on that wing. So we have got some experience with it, it's bigger but scaling up is something is one kind of a challenge a completely new material for any kind of an airfoil is a totally different kind of challenge, challenge that we observed in the last decade and the Dash-10 the third derivative type program is really a stretch of the Dash-9 with some modifications that actually give us an opportunity to make the Dash-8, Dash-9 and Dash-10 more common.

We’re going to use the which will reduce the production risk to the program overall. So whether add a 50,000 foot level or a program by program, we’re highly confident that these are programs where we can harvest the growth opportunity that our customers have told us are there would the huge number of orders with them on all those planes.

Ron Epstein - Bank of America Merrill Lynch

Okay, great. Thank you very much.

Jim McNerney

Sure. You are welcome.

Troy Lahr

Operator, we have time for one more question.

Operator

And now we have Sam Pearlstein with Wells Fargo. Please go ahead.

Sam Pearlstein - Wells Fargo

Good morning.

Jim McNerney

Good morning.

Greg Smith

Good morning.

Sam Pearlstein - Wells Fargo

Greg, just wanted to go back in terms of some of the free cash is just directly is advances a source of cash this year? And then related to that, can you talk a little about cash deployment? Are you still thinking 85% of that will go back to shareholders this year or given the $15 billion in cash from the balance sheet, could we see a higher number this year?

Greg Smith

Yes, I think you will see a higher number this year, Sam. And we are obviously, as I said, we are committed to executing on that balance deployment, the $10 billion of authorization in the dividend. So I think I said before plus or minus 80%, it's going to vary from year-to-year, but I expect this to be north of that in 2014. So we are committed to doing that.

Sam Pearlstein - Wells Fargo

And then just on the R&D, can you breakup a little bit the $3.2 billion this year, how much of that is commercial versus defense, because it just looks like you are going to see the growth in the commercial, I am trying to thinking should we assume that, that's going to continue to grow until the MAX entering into service?

Greg Smith

Yes, it depends. It's kind of flat. It's about $1.2 billion, $2 billion. So you are seeing a slight increase there in '14. And again that the Dash 9 coming down 37 MAX picking up in investment and that will peak in '15 and then again early introduction on the 777X and the 10X. So those are kind of the big moving pieces in '14. As you look to kind of '15 and now and certainly, we are early in having that discussion, but we are going through program by program and doing what Jim said where are we leveraging our prior investments in technology, where are we applying replication and really where are we leveraging in kind of key technologies that we have on other programs, real obviously team focus on. Affordability and disciplined operating rhythm around R&D expenditures and I think frankly you saw some results of that in '13. So we are continuing to kind of work through the next three to five years on that profile, but again, real focus on affordability there.

Sam Pearlstein - Wells Fargo

Okay, great. Thank you.

Jim McNerney

You are welcome.

Operator

Ladies and gentlemen, that completes the analyst question-and-answer session. (Operator Instructions) I will now retune 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 are running a little tight here, but we do have time for some questions from the media 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 are ready for the first question and in the interest of time, we ask that you limit everyone to just one question please.

Operator

And we will go to Jon Ostrower with The Wall Street Journal. Please go ahead.

Jon Ostrower - The Wall Street Journal

Hey, good morning guys.

Jim McNerney

Good morning Jon.

Greg Smith

Good morning.

Jon Ostrower - The Wall Street Journal

Just looking back at the IAM contract debate, Boeing really talked how airplanes are being sold for lower – sorry much higher relative discounts than the past, as you look at Airbus' next move potentially putting new engines on the A330 and you are looking that as a lower cost option for delivering the kind of efficiencies that airlines are clamoring for. As you look at it from a strategic perspective, is there any regret from your perspective about not continuing to invest in the 767 as a lower cost offering to airlines, we have more of these I think 767 fleets?

Jim McNerney

Absolutely, no regret, I think if you look at the operating performance of virtually any of the 87 family compared with whatever they may do with the

A330 and it's pure speculation Jon as far as I know. I know nothing. The operating advantage that we have is very, very compelling. Now could they build an airplane and lower the price to a point where it brings even on some NPV analysis maybe, but paying for that the development you alluded to and still having it all work would be tough in that kind of environment. So, no, we are highly confident that we have got an answer for anything they might do with the A330. And the 767 as you know is alive and well, selling freighters to great customers like Federal Express and will become the basis of a 40 year plus as some people say I don't know how long it will be but some people say that the tanker program will last 40 years. That's a pretty good deployment of that capability in my mind.

Operator

Next we go to Dominic Gates with The Seattle Times. Please go ahead.

Dominic Gates - The Seattle Times

Jim my question arises out of the recent Machinists deal which as you know they had to give up their defined benefit pensions. Many (indiscernible) workers and others in Washington state are pointing to your personal defined benefit pension which will pay out more than 3.6 million a year. I'm asking where is the shared sacrifice from you and other top executives? What would you tell them?

Jim McNerney

I think the IAM deal first of all was a necessary deal that makes this company very competitive, okay? Now in addition we do have a very, very large even after that deal and some other deals that we have cut. We still have a very large pension obligation that we need to address over the next few years and we will address it and we're not prepared to have a discussion about that today but the principle of dealing with that in a fair and equitable way is something that we're mindful of but stay tuned.

Operator

Our next is from Al Scott with Reuters. Please go ahead.

Al Scott - Reuters

I wanted to ask last summer you were saying in terms of the U.S. budget cuts and sequestration that we're not out of the woods we're going into the wood. I wonder if you could talk descriptively about how that picture has changed now that we're seeing more clarity on the 2014 horizon and also just on the commercial side in terms of your sense of the readiness of the suppliers to support your ramps in production?

Jim McNerney

On the commercial side?

Al Scott - Reuters

Yeah.

Jim McNerney

As for sequestration I think what really happened with the deal the Ryan-Murray deal was sort of one way to think about it simply is that it delayed the full impact of sequestration by 18 to 24 months by about a half, okay? And so it's sequestration still lurks out there. It could be dealt with legislatively again. There is time to have a rational debate about that and in the meantime there is relief for 18 to 24 months so that’s the quick way to think about that and in terms or readiness and Boeing by the way as I think both Greg and I said in our remarks did very well with that incremental funding in terms of program allocation.

Supplier readiness, look it's an incredible part of the work that we do to be prepared for this rate breaks. It's growing well we have gone through a series of rate uppers over the last 2 or 3 years. We’re actually entering a period now over the next 2 or 3 years where there is a more, there is the rate changes is dramatic and therefore there will be somewhat less pressure on suppliers but we’re feeling very confident in their ability to deliver the program that we have described to you out in the next few years.

Operator

And next we will go to Andrew Parker with Financial Times. Please go ahead.

Andrew Parker - Financial Times

Jim I wonder if I could ask you a sort of broad macroeconomic question please, you all have seen I mean for some time now China, India, Indonesia several emerging market economies reporting economic slowdown and now we’re seeing significant currency volatility of a currency like the Indonesian currency against the dollar. Are you at all concerned that this is going to have a negative impact on your commercial aircraft or the backlog in other words are you alert and concerned about the risk that some airlines as a result of lower growth currency volatility, you could actually cancel orders, differ deliveries et cetera. How do you look at it?

Jim McNerney

We haven't seen that yet and we have had no sort of leading indicator discussions with people either. So I think from time-to-time we do have these currency flurries. China as they go through their leadership transition, there is some uncertainty and a point or two of slowdown in the overall economy as they try to get their feet underneath them with the new leadership. I don’t think the China story has changed firstly. I see the currency as a country by country. And I think the big picture and so I don’t see an epidemic at this stage.

And the other thing to be my flow is that half of the planes we sell are a very, very big value proposition to these airlines. The planes they are replacing are dramatically inefficient versus the ones that we have whether it’s the new 777 and 787. So a 10% move in currency, even the 20% move in currency, is it going to get in the way of providing 30%, 40% improvements in overall economics that these planes have. So we are a little insulated in that way too.

Operator

Our next question is from Julie Johnsson with Bloomberg. Please go ahead.

Julie Johnsson - Bloomberg

Hey guys.

Jim McNerney

Hi.

Julie Johnsson - Bloomberg

Obviously, you had blockbuster year for orders last year, just wondering if you can give us a little bit of color for what you expect for 2014 and also what your thinking is for book-to-bill, do you see orders exceeding deliveries?

Jim McNerney

Well, I think this year will be as we look at it, it feels like at least a book-to-bill of 1-to-1 coming up this year.

Julie Johnsson - Bloomberg

Alright, that’s it.

Tom Downey

Operator, we have time this morning for one last question please.

Operator

And that will be from Josh Freed with the Associated Press. Please go ahead.

Josh Freed - Associated Press

Hi there. You mentioned the customer by customer variation in the reliability for the 787, so I just wondered if you can say more about that, I mean, why would there be differences from one customer to the next? And what kinds of reliability what are maybe sort of the top one or two reliabilities you are just still dealing with on that?

Jim McNerney

Well, each customer has different ways of using and operating the airplane. There is also some randomness about it, but 98% which is the average is a pretty good number. About I think about 45% of the fleet is operating above the 98.5%, which is getting closer to our 99% plus objective. So there is just sort of standard randomness, but also some operating things, the operating differences across the airlines, but there is still some software debugging that's going on. There is some electromechanical systems that have to be replaced a little more often than we want them to be replaced, but all those trends are coming down. And so we remain confident that we are that this year we are going to reach our goal of getting over 99% reliability.