Operator

Thank you for standing-by. Good day everyone and welcome to the Boeing Company's Third 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 third 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.

W. James McNerney

Thank you, Troy, and good morning, everyone. I'll start with some comments on the quarter and our business environment. After that, Greg will walk you through details of our financial results and outlook.

Now, let's move to slide two please. Boeing delivered another strong quarter with solid operating performance across our production programs and services businesses which drove a 19% increase in our core earnings per share. This performance has allowed us to continue returning cash to our shareholders through our strong dividend and share repurchase program.

Revenue at Boeing Commercial Airplanes increased 15% to $16 billion and operating margins were strong at 11.2%. We delivered 186 commercial airplanes in the third quarter, including 31 787 Dreamliners and we added net new orders of 501 airplanes. Boeing defense, space and security revenue was $8 billion in the third quarter and operating margins increased to 10.8%.

BDS captured numerous key contract awards in the quarter, including NASA's commercial crew spaceship program with a potential value of $4.2 billion. And the first order for the 02 Phoenix small satellite.

Significant BDS program milestones include delivery of the first Chinook helicopter under the latest multi-year contract with the U.S. Army, successful launch in orbit of the seventh GPS IIF satellite, and delivery of the first four upgraded Airborne Warning and Control System aircraft for France.

With that, let's turn to the business environment on slide three. 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 the year of 1011 are well above our planned output and our record backlog of more than 5500 aircraft represents more than seven years of production at current rates. Given the 737's robust backlog of more than 4000 orders, we plan to increase production from the current rate of 42 per month to 47 in 2017 and then increase production again to 52 per month in 2018.

Furthermore, the compelling value proposition of the 787 and its sizeable backlog of more than 850 orders are driving production rate increases from today's per month to the previously announced rate of 12 per month in 2016 and then up to 14 by the end of the decade.

We also are increasing production on the 767 from the current rate of 1 per month to two per month in 2016. Notwithstanding a somewhat richer mix of global economic and geopolitical developments throughout this year which we are monitoring very carefully, global passenger traffic trends are strong, and air cargo traffic continues to gradually improve, although the latter still remains a watch item for us.

We continue to see replacement demand as an increasingly important market driver with airlines opting to introduce newer more efficient airplanes with compelling economics and a rapid return on investment rather than keeping older less efficient models in service.

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, increase residual values, greater range and a better overall passenger experience. All of these elements provide significant value to our customers over the life of the aircraft. When we look at that combination of growth and replacement needs over the next 20 years, we forecast global demand for nearly 37,000 new commercial airplanes.

Near term, the customers continue to demonstrate confidence in their fleet plans with deferral requests still running well below the historical average and we continue to have requests to accelerate deliveries. This ongoing strong demand, coupled with our large and diverse backlog underpins our outlook for sustained growth in the years ahead.

In the Twin-Aisle segment, we continue to see healthy demand for both the 777 and the new 777X which are outselling the competition by a wide margin, giving us confidence in our ability to transition between the two airplanes. We also continue to enhance the value proposition of the 777 for customers with our relentless drive of product improvements that will further increase operating efficiencies.

Year to date, we have 45 orders and commitments for the 777. We expect demand for the 777 to remain healthy through the end of this decade with an anticipated average order capture around 40 to 60 airplanes per year to support the transition to the 777X.

We’ll continue to evaluate our options for the most efficient way to transition from the current 777 to the 777X as the new airplane enters final assembly in the 2018 timeframe. We are also introducing new manufacturing processes and technologies that allow us to further optimize the 777X production system. As we mentioned before, a smooth production transition is a top priority on this program.

On the 787 program, we achieved several noteworthy milestones, including delivering the fifth 787-9 as well as the first 787-9 with GE powered engines. Both the GE and Rolls-Royce engine types are now certified on the 787-9. In addition, our Charleston facility delivered its first 787 at its planned production rate of approximately three per month which supports the overall current production rate of 10 per month. Production performance at Charleston continues to progress nicely.

In the Single-Aisle segment, demand for our new fuel efficient 737 MAX remains high with cumulative orders totaling nearly 2300 airplanes from 47 customers. The production bridge from today’s 737 to the MAX remains solid with the first MAX delivery expected in 2017.

Turning to defense, space and security, we continue to solid support for our major programs in the FY15 budget process. We are encouraged by the actions taken in the both the House and Senate Appropriations Committees with regard to additional Apaches and EA-18G Growlers as well as strong support from both on P-8 and Tanker. Our international business represented 28% of BDS revenues during the quarter and 37% of the BDS backlog as we continue to leverage our unique One Boeing global advantage.

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, space launch system, 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. We continue to focus on driving further efficiency, quality and productivity gains to improve program profitability and fund investment in future growth. As part of these efforts, BDS continues to make strong progress on our market based affordability initiative as we strive to reduce operating costs by another $2 billion to ensure competitiveness through the ongoing downturn in domestic defense spending.

Our announcement in December of plans to consolidate some of our defense service and support work into Oklahoma City and St. Louis is one example of those efforts. Decisions that affect our workforce are never easy, but we are fortunate to have a growing commercial business with employment needs that have helped mitigate some of the impact on our people. In summary, our team is executing on our business strategy by meaningfully growing revenues, generating, solid operating performance on improved execution and capturing strategic new business.

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 four to discuss our third quarter results. Third quarter revenue increased 7% to $23.8 billion driven by growth in our commercial airplane business.

Core operating margins increased to 10.2%, reflecting solid productivity gains in both businesses. Third quarter core earnings per share increased 19%, $2.14 on higher volume and continued strong operating performance. Let’s turn now to our commercial airplane business on slide five.

The third quarter our commercial airplane business increased revenue 15% to a record $16.1 billion on a 186 airplane deliveries. The solid BCA operating margin of an 11.2 % reflects strong program execution offset by the impact of higher 787 and 747 deliveries and higher fleet support for new customer introductions. Commercial airplane captured $69 billion of net orders during the quarter and backlog achieved a new record of $430 billion and over 5500 aircraft in seven years of production.

In the third quarter, 787 deferred production cost increased $947 million to $25.2 billion, largely driven by the increase of 787-9 production and the continued inventory pull ahead to efficiently optimize in production and minimize disruption as we introduce the aircraft into our production system.

Similarly, on the 787-10, we'll continue to look for opportunities to accelerate our build plan in early 2015 to mitigate early introduction risk, while preparing to increase the overall 787 production rate to 12 per month in 2016. The team continues to reduce unit cost and improve float time on both the 787-8 and 787-9 through continued focus on optimization of the production and maximizing efficiencies.

Overall, we continue to make solid progress on the 787 program, however, we still have work ahead of us as I said introducing the 787-9 in production preparing for the 12 per month rate and again, introduction the 787-10 while drive efficiencies across all aspects of the program. The team remains focused on solid day-to-day execution, risk mitigation and improving the long-term productivity and profitability and cash flow going forward.

Turning now to defense, space and security results on slide six, third quarter revenue for our defense business was $7.9 billion and operating margins increased to 10.8% due to strong performance across the business. Boeing Military Aircraft third quarter revenue increased 3% to $3.5 billion, reflecting higher volume on our P-8 program. BMA operating margins also increased to 12.4% on continued solid program execution.

Global services and support revenue of $2.3 billion and operating margins were 9.7% largely due to deliver mix in the quarter. Network and space systems reported revenue of $2 billion, reflecting timing of ULA launches and lower government satellite volume.

Operating margins increased to 9.3% in the quarter on strong program execution across the portfolio. Defense, space and security reported a solid backlog of $60 billion with 37% of our current backlog now from international customers.

Turning now to slide seven, Boeing Capital's net financing portfolio increased slightly to $3.5 billion on some new aircraft volume.

Now, turning to cash flow on slide eight. Third quarter operating cash flow before pension contributions was $1.7 billion driven by higher commercial airplane production rates and solid operating performance somewhat offset by timing, receipts and expenditures in the quarter.

During the quarter, we made a plan to discretionary pension contribution of $750 million. With regard to capital deployment, we paid $525 million in dividends to shareholders and repurchased 8 million shares for a $1 billion in the third quarter, bringing our year to date repurchase activity to 39 million shares or $5 billion.

The capital deployment to date continues to demonstrate the strength of our portfolio and our backlog and our commitment and confidence in the business performance going forward. We expect to complete the remaining $5.8 billion repurchase authorization over approximately next one to two years. Returning cash to shareholders along with continued investment to support future growth remains a priority for us.

Let’s move now to cash and debt balances on slide nine. We ended the quarter with $10 billion of cash and marketable securities. Our cash balance continues to provide sound liquidity and positions us well going forward. Turning now to slide 10, we’ll discuss our outlook for the remainder of 2014.

We are increasing our core earnings per share guidance for 2014 by $0.20 to now be $8.10 to $8.30 on continued solid execution. Based on strong operating performance, combined with the impact of timing of receipts and expenditures, we are increasing our operating cash flow guidance before pension contributions for 2015 to now be greater than $7 billion.

In addition, as a result of our continued focus on execution and disciplined cash management, we are lowering our outlook for capital spending by $200 million to now be approximately $2.3 billion for the year. This performance allowed us to further return cash to shareholders as we continue to aggressively repurchase shares and pay dividends. Remain confident in our long term cash generation potential given the focus on execution, our ability to deliver on the unprecedented backlog and our unmatched portfolio of products and services.

We are also increasing our BCA operating margin guidance to be approximately 10.5% on improved operating performance. In the fourth quarter, we expect BCA margins to be impacted by higher deliveries of 747 and 767, some additional planned fleet support costs for new customer introductions, higher R&D on the 787-10 and 777X, as well as additional investments in productivity initiatives.

In summary, third quarter financial performance reflects the strength of our backlog, the strong demand for our products and services and our continued focus on driving productivity throughout the enterprise. With that, I'll turn it over to Jim for some closing comments.

W. James McNerney

Thank you, Greg. With three solid quarters behind us, we are focused on closing out the year with continued strong business performance that will allow us to meet our customer commitments and our investments in the future, recognize and reward our team for their work and continue to return cash to shareholders.

Our priorities in 2014 and beyond remain clear, profitably 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 and position our defense business with targeted investments and further international expansion and all the while providing increasing value to both our customers and our shareholders. Now, Greg and I would be happy to take your questions.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question will be from Doug Harned with Sanford Bernstein.

Doug Harned – Sanford Bernstein

Yes, good morning.

W. James McNerney

Good morning, Doug.

Greg Smith

Good morning, Doug.

Doug Harned – Sanford Bernstein

When you look at the year so far and you've had very strong margins in BCA, in this quarter, your unit margin turned significantly positive which is new.

Greg Smith

Yes.

Doug Harned – Sanford Bernstein

But on the other side, deferred production on the 787 moved slightly above your guidance level and I would say free cash flow for the quarter was low given your guidance even before pension. So I'd like to understand better how you see the operating performance, the strong operating performance we've seen turn into cash going forward? And specifically, when do you see the 787-8 and the 787-9 each turning cash positive? And what else drove the high unit margins in the quarter, is that something that we should expect to continue?

Greg Smith

Okay. Well, Doug, let me start with cash flow. Certainly, you are right, I mean strong execution across the business and across the programs and that's certainly driving our cash flow to date. And as I mentioned before, there's timing quarter between quarter when you – relates to advances and milestone payments.

So that – some of that is what you are seeing – equate that to timing is what you are seeing on the quarter. And as I mentioned, we've been pulling forward 787 inventory and particularly around 787-9 to ensure that that program enters into the production system in a very smooth manner of which it is doing. We also got some timing C-17 orders that we've talked about.

So those, again, are related to timing throughout the balance of the year. So we still expect to see very strong cash flow through the balance of the year and really coming from the elements we talked about, continuing to execute on the deliveries, on the productivity as well as the 787 unit cost.

Now, when you look forward into 2015, we expect to see continued growth in cash flow, again, through the execution on the production rate, additional productivity, international orders and that will be somewhat offset by our cash taxes and 777X R&D starting to kind of come into play, [but that could] (ph) you'll see growth. And then, from there forward, as we talked about, you'll continue to see operating cash flow growth throughout the balance, and again, that's all executing on our production rates and continuing to drive productivity. I am not sure if I covered all your questions.

Doug Harned – Sanford Bernstein

Well, if you look at the – you are talking about moving inventory forward related to the 787-9 and I am trying to understand if you – if it's possible to put that aside for a moment and think about how the 787-8 and 787-9 are each performing in terms of costs, are those – is the 787-8 cash positive yet if were to look at it on a standalone basis? Can you give us a sense of where that is today relative to, I would call, more one-time items related to inventory timing?

Greg Smith

Yes, yes, no – as I said before, we are not cash positive yet. We expect to be cash positive in the 2015 timeframe and that will be a blend obviously of 787-8 and 787-9, but if you step back and look at unit cost on 787-8 and 787-9, they continue to progress well as I've talked about on prior calls, as well as I would say the other key indicators that ultimately make into deferred and cash around flow time and overall cost of quality, all of those trending in the right direction on the program.

So obviously we expect that to continue, continue to expect to come down the learning curve on the 787 as well as step down into [prior] (ph) pricing and continuing to work the productivity initiatives, all of that ultimately contributing to cash flow over the long term of the program.

Doug Harned – Sanford Bernstein

Okay, okay. Thank you.

Greg Smith

Okay.

Operator

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

Joe Nadol – JPMorgan

Thanks. Good morning.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Joe Nadol – JPMorgan

Greg, just staying on the deferred, so wondering if you could – if you have a new estimate of where it might take or if we are sticking with [about 25 even though] (ph) we are already a little bit over?

And then just honing into the 787-9, I think the pull forward, you've talked about the inventory is a little more than maybe you expected a year ago, could you maybe give a little more concrete – give us a little more on exactly what's going on there, is this payments to suppliers that are happening in advance? I guess, quantify it a little bit and help us get a sense as to when maybe flips the other way?

Greg Smith

Yes, maybe just to kind of help when you look at just over $900 million of growth in deferred in the quarter, there's about a couple of hundred million dollars in there that's related to 787-9 pull forward. So, essentially, what they are doing is, as these products become more mature in the production system and the suppliers are performing, we are pulling those components and migrating those into the production system to allow a smooth transition as we are operating it at 10 a month and Ray and the team have a done a fantastic job in doing that and you are seeing that in the results, we are making our – obviously our deliveries. And so that kind of methodology they are utilizing in the production system is a risk reduction, certainly, impacts deferred on the near term, but as far as the long-term profitability and risk reduction on the program, absolutely the right thing to do.

And as I've said to you in the past, the program team out there is focused on unit by unit improvement on all aspects, whether it is quality, unit cost or flow time and ultimately, cash and that's certainly what they are managing, but there's some near term, as I said, risk mitigating activities that we've taken into account here that do impact near term on deferred, but are absolutely the right thing to do for this program and that's what you've seen in the quarter and you are going to continue to see some of that as we start to pull forward 787-10 products and get those into the production system, derisk the overall production system and get ready for 12 a month.

On the overall deferred, there's really no change, I said it would be approximately $25 billion, we are at $25.2 billion, but again, keep in mind, last two or three quarters we pulled forward 787-9 and that wasn't in the original plan, there's no question about that, but again, absolutely the right thing to do. So, we are continuing to focus on it, but like I said, Joe, it's all about making rate and making unit cost improvements unit over unit and that's what the team continues to focus on.

Joe Nadol – JPMorgan

If I may, this is violating the one part, one question, but just to keep on the point –

Greg Smith

Yes.

Joe Nadol – JPMorgan

I understand the 787-9 pull forward is a couple of hundred, and I think maybe it was $300 million or so, $300 million or $400 million last quarter.

Greg Smith

Okay.

Joe Nadol – JPMorgan

I understand that, but it doesn't seem like sequentially the other part of deferred really came down. It seems like that was maybe $700 million and change, last quarter, $700 million and change this quarter, so is there any more color on the 787-8?

Greg Smith

Yes, no – 787-8 continues to make progress. So we are continuing to make progress there and as we have. So there's really, I would say, they are continuing on the trajectory of reducing unit cost as we've been on.

Joe Nadol – JPMorgan

Okay, thank you.

Greg Smith

Okay.

Operator

Our next question is from Cai Von Rumohr with Cowen and Company. Please go ahead.

Cai Von Rumohr – Cowen and Company

Yes, thanks so much.

Greg Smith

Hi, Cai.

Cai Von Rumohr – Cowen and Company

Not to beat a dead horse, but if we take out the pull forwards which is not execution, it doesn't look like the 787 deferreds are coming down that much. Hence, it is pretty – I am confused as to why you got a $1 billion positive swing in unit cost or about $500 million profit, which were the programs that were profitable or more profitable in the third quarter versus in the second quarter and how does that all [square] (ph) with the trend in 787 deferreds? Thanks

Greg Smith

Yes, I mean, on overall unit, we saw improvement on the 777 quarter over quarter and about flat on the 777. Now I'd give you some perspective, on the 777, we also had a block extension, 200 units that included the investment [to go up to 52] (ph) but also most of that, those 200 units were MAX airplanes. So I think it really gives you a sense of the value this airplane is bringing to the marketplace and at the same time, the focus on productivity that you are seeing on not just that program, obviously on the other program. So good performance I would say on the core programs and continuing to make progress on the 787, but when you look at unit versus program, Cai, you also go to take into the account, as I've talked before, mix.

So you've got more early build on the Charleston and more 787-9s in there in Q3 and even with that, you've seen improvement when you compare unit to program. So continuing to make progress, still got a long way to go, but I think they got good plans in place, they are monitoring them, we've got the enterprise engaged on how to capture more productivity and then going forward, obviously, partnering for success and supplier step-down as we introduce new blocks into the production system. So all of that adding to the improvement in unit costs going forward.

Cai Von Rumohr – Cowen and Company

Thank you.

Greg Smith

You are welcome.

Operator

And next go to Carter Copeland with Barclays Capital. Please go ahead.

Carter Copeland – Barclays Capital

Hey, good morning, gentlemen.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Carter Copeland – Barclays Capital

Just a quick clarification on the 777, your comment about near versus program, did the 777 program margin change in the quarter? And then as a follow-on, the period expenses and fleet support that called up both in the release and in your prepared remarks.

Greg Smith

Yes.

Carter Copeland – Barclays Capital

Greg, can you help us understand, maybe how impactful that is to the full year margin and then maybe help us understand the cadence of those expenses, quarter over quarter, have those been growing sequentially each quarter or were they high one quarter versus the others, any help there will be much appreciated?

Greg Smith

Sure. Our 777 margin did improve slightly in the quarter and again a lot other things I talked about on the 787 are obviously embedded into the 777. So we are continuing to try to reduce the unit cost overall on that program. So, you are seeing some of the results of that. On the period expense, I would say, the moving pieces within there are fleet support and as you know, we are introducing more new 787s to customers this year than we have in the prior years and we want to ensure that that is a very smooth transition. So we are making investments in fleet support to ensure that they do have – able to introduce those airplanes very smoothly into their operating system.

And then R&D, so you are starting to see in the back half here, you'll see 787-10 really starting to ramp up and you all see early introduction of the 777X R&D. So those are primarily the moving pieces. You also got a little bit of mix in the fourth quarter BCA margin where we will have a couple of more 747s that'll be dilutive on the margin basis. But again, we are going to continue to manage that as we have. And if we see an opportunity to improve that margin in the fourth quarter, we'll certainly capture those gains.

Carter Copeland – Barclays Capital

All right, thanks.

Operator

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

John Godyn – Morgan Stanley

Great. Thank you for taking my question.

W. James McNerney

Good morning.

John Godyn – Morgan Stanley

Greg, I wanted to ask a bit about the buyback activity year to date and what the right way to interpret it? In the prepared remarks, I heard you sort of reaffirm that you'll finish the rest of the authorization over the next one to two years.

Greg Smith

Yes.

John Godyn – Morgan Stanley

I am curious when we think about the buyback year to date and the fact that it's been at an elevated rate, is that a disagreement with the market on the price of the stock, is that the expectation of continued strong execution going forward? What is driving the decision to buy back at an elevated rate?

Greg Smith

I'll [say the latter] (ph), that's the

John Godyn –Morgan Stanley

Okay.

Greg Smith

I mean when you step back, just think about, and I've talked about this a lot, because there is a lot of big moving pieces in here, as I've talked before on advances or milestone, you step back and you think about last year and this year combined, over $16 billion of cash generation coming from the core operation and you look at that and then you look at the production rates, you look at the record backlog and the fact is I think we've got maybe three or four production rate increases going forward that we need to execute, we've already been through almost $17 billion to date. And that's what's giving us the confidence.

The risk profile obviously has changed dramatically and the continued focus on execution and repurchasing $5 billion of stock this year really, again, looking forward, looking at the strength of the backlog, looking at our ability to execute on that backlog and capture additional productivity and that's what's really driven us to buy back the shares at the pace we have been buying back. And we put the authorization in place obviously to utilize it and we are going to continue to do that as we fit, but it gets back to just the fundamentals and I think the competitive differentiator in the marketplace, in the marketplace where you are looking at 5500 airplanes in backlog and we know where they are, we are very happy with the quality of that backlog, [gets to] (ph) execute on that and executing on that flawlessly and I think the team has done a great job and I think we are going to continue to do a great job going forward.

John Godyn –Morgan Stanley

And is there a potential to revisit or even increase the authorization going forward?

Greg Smith

Yes, we certainly will do that as we [fit] (ph)

John Godyn –Morgan Stanley

Thanks a lot.

Operator

And next move to Sam Pearlstein with Wells Fargo Securities. Please go ahead.

Sam Pearlstein – Wells Fargo Securities

Good morning.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Sam Pearlstein – Wells Fargo Securities

I wanted to follow up on the question about some of those period expenses which is that if you look at the BCA [tied-ins] (ph) that would imply something like a mid-8% margin than the fourth quarter and I would think a lot of those things like R&D the [mix to 787-8, 787-7] (ph), etcetera really don't change going into next year, so is that how we should be thinking about BCA into next year as well?

Greg Smith

Yes. I think as you think about next year, obviously, we'll see strong growth coming out of BCA going into next year, again, executing on the production rates and we're also expecting a little bit higher services revenue going into next year. Now, on the margin front, we're going to have a little bit more R&D than we had this year and again, that's a ramp-down obviously of the 787-9, ramp-up of the 777X and the 787-10 and then again, improvements on 787 margin expected into next year and then we're going to continue to make investments in 777X automation as we've talked about I think in the past.

So, those are kinds of moving pieces if you think about going into next year and then of course, we're continuing to focus on the productivity initiatives I discussed. That's generally I think the best way to look at it for next year and again, on the top line, we know we need to do and on the bottom line, we're going to continue doing what we've – what we have been doing this year and last year on productivity.

Sam Pearlstein – Wells Fargo Securities

Okay. Thanks.

Greg Smith

You're welcome.

Operator

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

Rob Spingarn – Credit Suisse

Good morning.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Rob Spingarn – Credit Suisse

Greg, just on something you said a couple of questions ago about the importance of execution and also volumes, rate increases, and we're all sitting here waiting for free cash flow per share to get into the double digits and into the mid-teens perhaps, what's the timeframe, when do you have the confluence of this rising execution and at the same time, the volumes that will drive – that long awaited steeper slope in the cash flow, is this 2017 when you hit the next rate on the narrow body, because the 787 component of it seems to be moving a little bit to the right here when you said earlier, sometime in the 2015 time frame 787-8 goes breakeven –

Greg Smith

Yes.

Rob Spingarn – Credit Suisse

So when should we be thinking about a change in the slope on the free cash flow curve?

Greg Smith

Well, as I say, you are going to– we're going to see growth next year and expect to see growth thereafter and it's really again executing on the production rates. Now, once you get to a peak rate, I would say that's where you really maximize the cash flow of just the basis of the elements of driving the cash flow between progress payments and delivery payments. So, once we get to peak rate is really where you should see the real potential or peak potential from the company and then again the partnering for success and the other initiatives more mature out in that time frame.

But, again, the top line is pretty solid, when you look, we know the rates, we know we need to do execute on far fewer than what we've had to, but – and we're making investments today. We're making investments in that growth whether it's 787-10 or whether that's MAX or 777X. So, obviously those investments will peak in as they get, I'll take kind of the [key minus] (ph) entry into service and so there'll be some offset there. But, again we continue to see a strong cash flow profile going forward driven on those elements of the business.

Rob Spingarn – Credit Suisse

Right. But, Greg, how do we factor in the fact that your peak rates keep moving to the right and not because they are delayed, they just keep getting higher?

Greg Smith

Well, I wouldn't say that rates have moved to the right, they moved up.

Rob Spingarn – Credit Suisse

That's what I mean getting higher. So, you have new peaks further out at higher levels?

Greg Smith

Right.

Rob Spingarn – Credit Suisse

And continued investment to get there. So, it's a little – when you're talking about maturing at a peak rate, are we talking about the 10 per month on the 787, the 12, the 14, the 42, the 47, or the 52 on the narrow body, how do we think about, what's a peak rate, what's a mature rate?

Greg Smith

I think all of those are going to come into play, and as you know, they're all pretty much staggered throughout that next five-year period, but when you talk about investments as an example, we've already made the investments, [these are] (ph) accounted for the investments that go into 52 a month on the 737. So, again I think this is a demonstration of the strength of the market and the strength of the portfolio and again, I wouldn't call it moving investments or moving rate to the right, it's more moving rates up.

Rob Spingarn – Credit Suisse

Yes. I wasn't trying to suggest they are delayed, I meant going higher. Just a quick one for Jim. Jim, we've seen a lot of movement in the price of oil here, and I know that airlines' fleet plan on a long-term basis, but at what price of Brent crude might we see some demand destruction?

W. James McNerney

Well, the airlines – first of all, airlines tend to buy on the sort of the distribution around a mean. So, and above to all, that distribution is pretty wide. So, their behavior tends to be driven by that more than a point (indiscernible). Having said that, our analysis shows the price of oil could still fall a long way before our planes are anything other than compelling economically.

I mean, this generation of new planes that we're introducing anywhere from 16% to 24% more efficient than the planes they are replacing, this replacement generation is it has more compelling numbers associated with than any generation I've seen since the 707. So, our analysis – we (indiscernible) on both interest rates and price of oil and you got to go a long way from where we are now before you begin to see even incremental impact.

Rob Spingarn – Credit Suisse

Okay. Thank you. Thank you both.

Greg Smith

Okay.

Operator

Our next question is from Jason Gursky with Citi. Please go ahead.

Jason Gursky – Citi

Yes. Good morning.

Greg Smith

Good morning.

Jason Gursky – Citi

Greg, just a clarification question for you and then one for Jim as well. On the clarification, can you just talk about or clarify the cadence of cash and deferred on the 787, is it the case that the 787-8, 787-9 move into a profitable state as the 787-10 is ramping up and therefore, things kind of stabilize, is that the right way to think about things on the 787?

Greg Smith

I think it's a combination or certainly getting to 12 a month, getting the 787-9 rate up are really the stabilizing factors obviously and continue to come down the learning curve internally and then the step down pricing on the supply chain are really the big drivers in there.

Jason Gursky – Citi

Yes. But then offsetting that will be some deferred build on the 787-10, is that right?

Greg Smith

Correct. Yes. Like I said, you know, if there's opportunities to pull some of this forward and I'll say verified in the production system, we're certainly going to do that as we have with the 787-9 and as you've seen it has been very successful. But, that's kind of a quarter-by-quarter, month-by-month decision that we'll make as we get closer to those products moving into the production system, but 12 a month is a big milestone on deferred production.

Jason Gursky – Citi

Right. And, Jim, the question for you is just the phrase productivity gains and partnering for success (indiscernible) throughout this call, give us an update on where we are with partnering for success and what you at this point knowing what you know about the success of that program to date and the productivity gains that you're seeing – what kind of margin expansion opportunity do we have here for the commercial business in particular?

W. James McNerney

Well, you're seeing the beginnings of the impact now in the margins you're seeing in our businesses. So, pretty robust margins, we have plans to keep them in that neighborhood at least and I would say we're still in the first 25% of this initiative. We've probably matured deals with somewhat over a third of our supply base, there is discussions with another third and then there's another third that we're jousting with a little bit. So, seeing the beginning of the impact now, still a lot more in front of us than behind us and I think it is going to be fundamental not only to our profitability but also the profitability of the people we work with.

I mean, we're taking cost out of our mutual business activities and those that are working with us are getting in many cases more volume from us part of the arrangement. So, this all gives us more flexibility on either taking it in margin or using it in price of the marketplace when we face those situations, and if we hadn't have had this program, we wouldn't be able to respond properly and so we're going to keep pushing this one.

Jason Gursky **– Citi**

Okay. Thank you.

W. James McNerney

Yes.

Operator

And we'll go to Myles Walton with Deutsche Bank. Please go ahead.

Myles Walton – Deutsche Bank

Thanks. Good morning.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Myles Walton – Deutsche Bank

Hi, maybe Greg, the advances, they were as a use of cash in the quarter –

Greg Smith

Yes.

Myles Walton – Deutsche Bank

And I'm coupling that with, I think the best commercial BCA bookings quarter in your history and certainly, I would imagine relative, in your prepared remarks said that orders are coming in well ahead of your expectations for the full year, so can you play out why advances aren't more of a source to your original benchmark for cash flow and [what's offsetting it] (ph)

Greg Smith

Yeah. No, absolutely, I mean, as you know, on initial order, there is no lot of cash that comes with that initial order, most of the cash associated that's with progress payment. So, that's where you're seeing an offset and it's purely just timing of progress payments one quarter to another. So, there's nothing else to read into that other than timing on progress payments.

Myles Walton – Deutsche Bank

In other words, there is no help that you're getting from the outside sort of activity for your guidance on cash flow?

Greg Smith

Yeah. No, I wouldn't say and you'll see more strength in the fourth quarter. So that's where you'll definitely see some timing in there. And then as we talked about, you got a little bit of inventory when you look at it on a net basis, inventory build up on 737 and 787 that are also offsetting that. But, again I would – I just equate that to purely timing.

Myles Walton – Deutsche Bank

And one clarification, the C17, is that a cash headwind to this year on [white tails] (ph) or is it all virtually into 2015 that we have to think about?

Greg Smith

No. It's this year.

Myles Walton – Deutsche Bank

Okay.

Greg Smith

Yeah. It's this year.

Myles Walton – Deutsche Bank

All right, thanks.

Greg Smith

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.

W. James McNerney

Hi, Peter.

Greg Smith

Good morning.

Peter Arment – Sterne Agee

Jim, you've mentioned the last couple of years that the majority deliveries having gone for replacement versus growth, I wonder if we can just put a finer point on that about how long do you think that this window continues to exist where we are seeing the majority of deliveries go for replacement before we tread back to kind of the historical growth estimates that have been associated with deliveries?

Greg Smith

Yes. I mean, if you look back in history, history is sort of 75% growth, 20% to 25% replacement and starting with really the 787, it's the replacement has been double that. Okay. So, a real (indiscernible) has changed. So, about half replacement, half growth. I think you're going to see it continue for a while as the new technology we've developed rolls through our model families.

For example, you're seeing it on the 787 today as it replaces the older medium sized wide-bodies and you're beginning to see it on the 777 as we spiral the number of those technologies now into the 777, you are beginning to see it on the MAX and so I think that's going to continue probably for another decade or so with a more robust mix of replacement versus growth which is the good thing about us in the sense that it will keep us disconnected from over all GDP trends. This is what gives us a multiplier on GDP.

And I think it's, and it all stems from the inventiveness of our people and staying out in front of the marketplace and our competition in that regard.

Peter Arment – Sterne Agee

Yes. And just, if I could just follow up to that, one of the things that's been driver this has been the elevated fuel prices. So, I know to Rob's question about you would have to go a lot lower, but someone analysis kind of indicate that you saw oil at $70 for an extended period, you see some destruction, is that the only thing number materially below that?

Greg Smith

Yes. I mean, we would not see much impact at $70, okay. And it would have to be much difference than $70.

Peter Arment – Sterne Agee

Okay. Very helpful. Thank you.

Greg Smith

Based on our analysis.

Peter Arment – Sterne Agee

Thank you.

W. James McNerney

Operator, we have time for one more analyst question.

Operator

And that will be from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak – Goldman Sachs

Hi, good morning, everyone.

W. James McNerney

Hi, Noah.

Greg Smith

Good morning

Noah Poponak – Goldman Sachs

Maybe since I am last, I'll do one more deferred question, I guess I'm wondering, now that you're at $25 billion, is it possible to more precisely pin down what the word approximate means in the approximately $25 billion and I know that's maybe [splitting] (ph) but I think a lot of your stakeholders really care if it is going to really kind of hover around $25 billion while it's flat before coming down or if it needed to be $26 billion or $27 billion before it comes back down.

And in that answer, if you could also address since the inventory pull forward that you're doing which makes sense was unanticipated and not in the original plan, are there any other potential new strategies that could come about that you could tell us about that we could in front of?

Greg Smith

Yes. I mean that's certainly the 787-10. I mean, if we have an opportunity to do that for all the reasons I talked about on the 787-9, we'll absolutely do it and that's supporting profitable growth going forward and it's a risk reduction and it is absolutely the right thing to do and again, I think the 787-9 performance demonstrates that. And so, that's probably the one that comes to mind where we – if we have opportunities, we will. It could impact near term deffered, but I'll say a long-term productivity and profitability for the program will benefit as a result of that and ultimately cash flow. You know, on the deffered, a year ago, I said approximately $25 billion, there is obviously been a lot of moving pieces within that number and the 787-9 performance on a unit cost basis and I think try to give you some color on the progress that's being made there, they are making good progress, so expect to make more absolutely.

We would like it happen faster absolutely, seems very focused on it and then making rate, and the team has done a good job on making rate and then the suppliers step down. So, all of those sentiments within deffered are being managed all around profitability and cash flow. Quarter to quarter, they are going to change. There is no question about that depending on what's taking place in the production or where we can pull forward certain elements even if 787-8 inventory if we compose (indiscernible) we pull that in at the same time. So it's going to more around, Noah, but as we enter into more 787-9 and we have the opportunity again to risk mitigate.

We'll do that as well, but we're managing it obviously with a weighted focus mindset on cash generation and long term profitability and cash generation for the program over the long term. So, yes, there is near term decisions that you're going to see but they are absolutely the right thing to do to drive again solid growth on both top line and bottom line for the program.

Noah Poponak – Goldman Sachs

Okay. I guess given we're over – a little over $25 billion, we're not breakeven yet on 787-8. We're pulling forward a little more on 787-9. We have yet pulled forward on 10 each of those being a couple of hundred million dollars. It sounds like the approximate could translate to $1 to $2 billion rather than $100 million to $200 million. Is that a fair assessment or is that too large?

Greg Smith

Well, I think it's certainly, we're going to continue to do this quarter over quarter, I mean I certainly don't see a profile to get to $2 billion, but it'll depend on the decisions we make on pull forward and if we decide to do that and our continued focus on unit costs, so obviously it's about making rate and coming down on the unit cost and we're going to continue to focus on that. But like I said, is all about making investments now that have – ensure that we have long-term profitable growth on the program.

We hope next year on a cash flow basis on the program, it certainly will be much better than what it was this year and again, it's all those things that we've talked about and during 2015 we expect to be cash positive on the program. So we're going to continue to execute on that and I would say kind of continue the productivity enhancements that the team has developed on the program that again really benefit not as much today, but definitely next year or next month or next quarter and following years to stabilize the production system and maximize the efficiency.

Noah Poponak – Goldman Sachs

Okay. Thanks very much.

Greg Smith

You are 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.

Thomas J. Downey

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

Operator

And first go to Doug Cameron with Wall Street Journal. Please go ahead.

Doug Cameron – Wall Street Journal

Hi. Good morning, Jim and Greg.

W. James McNerney

Good morning

Greg Smith

Good morning, Doug.

Doug Cameron – Wall Street Journal

On the defense side, actually this bridges both parts of the business, you previously indicated in regulatory filings that you may make a decision on [a big chunk] (ph) in St. Louis in the sort of first, second quarter of 2013 time frame, given the transfer or upon transfer of some commercial work there in Wichita as well, I wonder if that sort of decision-making time frame is still valid, or in fact, bringing the commercial work in fact may change your mind, regardless of what happens on the military side?

W. James McNerney

Well, the key factors around any significant decision around St. Louis eventually gets to F-15 and F-18 production. We are pleased to see in the current budget proposal that F-15s are supported in the FY-15 budget which takes us out through the end of 2017, the international orders on F-15 take us beyond that. Now, that's not yet etched in stone with our government, so could there be a significant decision first part of 2015?

Yes. Does it look if we may be able to navigate through that? Yes. But I wouldn't want to say categorically that a decision wouldn't have to be made at that time. Obviously, longer term, Long Range Strike is a program that we think we are well positioned to win which would certainly St. Louis over the longer term perturbation we would have face into shorter term.

Operator

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

Julie Johnsson – Bloomberg News

Hi, a quick question on 747-8, just wondering if there are any plans to reconsider the 1.5 per month rate this year, given what we're seeing with sales and the dwindling backlog?

W. James McNerney

Well, we were pleased to see that the cargo market growth has accelerated and in this last quarter is up. Our best analysis as we sit here today says that the marketplace will support the rates that we have in place. The macro picture is improving, we'll just to have to look at it every quarter and make a decision for the Boeing Company. But for right now, we see – we think we are in the right spot.

Operator

And next go to Dominic Gates with the Seattle Times. Please go ahead.

Dominic Gates – Seattle Times

Good morning.

W. James McNerney

Good morning, Dominic.

Dominic Gates – Seattle Times

I wanted to ask about the 737 market share, obviously the MAX is doing extremely well, but you started a year behind the Neo, the expectation was that basically sales of the Neo would tapper off and sales of the MAX would catch up, but looking at market share now, the Neo is showing no signs of wining, just to say that huge order from Indigo and it looks like 737s, is that like 40% market share. We've also got news that Airbus maybe looking at a longer range version of A321 which may make it even more attractive. So, you've always insisted you end up with 50-50 or approximately that, can you elaborate on where that's going and how you see that happening?

W. James McNerney

Dominic, you are breaking up a little bit. I think I got the question. Our view of where it will end up based on our discussions with customers based on our pipeline hasn't changed. I mean, you are right, we started a year-and-a-half behind the other guys. If you look at the trajectory of where we are at a similar point in time where they were, we are right, we are in a similar place. So the market share will be what market share will be, but our view hasn't changed on that at all.

Operator

Our next question is from Alwyn Scott with Reuters. Please go ahead.

Alwyn Scott – Reuters

Hi, good morning.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Alwyn Scott – Reuters

Jim, it seems as though the partnering for success percentages that you stated a little earlier on the call haven't really changed much in the last few quarters. We keep hearing it's roughly a third are engaged, a third are sort of in the converting stage and a third, [you have] (ph) yet to engage. Can you explain why that – that's not – we are not yet seeing any real shift in getting more suppliers into the tent?

W. James McNerney

Well, I didn't mean to leave the impression that we are not making progress, because we are. I think if you take a granular look, a number of partners have – are working with us on our partnering for success basis. So I didn't want to leave the impression we are not making progress, we are. And I think it would be fair to say that over the last three to four months that another 10% of our partners have started working with us a concrete basis. Maybe that's a better way to answer that question.

Greg Smith

Operator, we have one last question in the queue and we will take that now.

Operator

That'll be Steve Wilhelm with the Puget Sound Business Journal. Please go ahead.

Steve Wilhelm – Puget Sound Business Journal

Good morning, gentlemen.

W. James McNerney

Good morning.

Greg Smith

Good morning.

Steve Wilhelm – Puget Sound Business Journal

[Also considering] (ph) the 11.2% margin in BCA, could you provide historical contact on that, is that a record or a near record and it was higher in the past, what factors made it happen then relative to now?

W. James McNerney

Well, I mean, it certainly is, we had a strong quarter, it really went across all the production programs. I mean, I haven't gone back and looked at whether it was a record or not, but it certainly goes to the focus that team has on driving the productivity and even to Jim's question prior on partnering for success and we are starting to see the benefit of that. So just solid execution across the board.