**Operator**

Good day, everyone, and welcome to the Boeing Co.'s Fourth Quarter and Full Year 2010 Earnings Conference Call. [Operator Instructions] 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. Scott Fitterer, Vice President of Investor Relations for the Boeing Co. Mr. Fitterer, please go ahead.

**Scott Fitterer**

Thank you, and good morning. Welcome to Boeing's fourth quarter and full year 2010 earnings call. I'm Scott Fitterer, and with me today are Jim McNerney, Boeing's Chairman, President and Chief Executive Officer; and James Bell, Boeing's Corporate President and Chief Financial Officer.

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

Before we begin, I need to remind you that any projections and goals we may include in our discussions this morning are likely to involve risks, which are detailed in our news release, in our various SEC filings and in the forward-looking disclaimers at the end of this web presentation.

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

**W. McNerney**

Thank you very much, Scott, and good morning. I'll begin with a few brief comments on the business environment followed by some thoughts on our performance during 2010. After that, James will walk you through our results and 2011 outlook, and then we'll be glad to take your questions.

Starting with the business environment on Slide 2. During 2010, we saw the global economy continuous transition to a sustained, albeit generally slow, recovery. As part of that however, there was a significant rebound in air traffic, with 2010 passenger and cargo levels reaching peaks last seen in 2007 and 2008.

This traffic growth is being experienced in all regions, with emerging markets continuing to show the strongest recovery. Looking forward, we expect growth rates to continue along their historical growth trends as air traffic has reached pre-recession levels.

Demand for new airplanes remain strong, driven by the traffic rebound, high load factors and yields that continue to improve. In response to this broad-based market strength, Commercial Airplanes made a series of decisions in 2010 to increase production rates across its product line. The most recent was in December, when we announced a 777 rate increase to more than eight per month in the first quarter of 2013. Previously, we announced our plans to increase the 737 production rate from 31.5 airplanes per month to 35 in the beginning of 2012, and then to 38 per month in the second quarter of 2013.

In Commercial Aviation Services, airplane utilization rates and the size of customer fleets continue to grow, which has led to increased core spare sales. And with improved airline profitability, we're also seeing an accelerated recovery in aircraft modifications.

On the Defense side, budget pressures in the U.S. and in other developed markets continue, while spending in the Middle East and Asia remains strong. As affordability becomes more critical to key customers, we are seeing a renewed demand for proven and reliable platforms and systems, a development which plays to the strength of our portfolio, including the multi-mission F/A-18 aircraft family and our rotorcraft products.

In addition, spending priorities in many markets now include more non-traditional growth opportunities. In unmanned systems, C4 intelligence, surveillance and reconnaissance and cybersecurity, increasing international demand for defense and security systems continues to bode well for us as well. There is a clear window of opportunity for our multiple aircraft and other products, as our international customers confront the need to transition to the next level of capabilities while also seeking proven reliable systems.

Our core strategies for Defense, Space & Security markets are unchanged. First, extend and grow our existing programs. Second, capture an increasing share of international and services opportunities. And finally, accelerate our repositioning with investments in adjacent markets.

Notwithstanding the high national security threat environment in the United States and our solid foundation of proven and affordable solutions, we do see an extended period of flat to declining U.S. Defense budgets with intensifying pressure on contractor margins. In that light, we'll continue to accelerate our own efforts to reduce infrastructure costs and maximize efficiencies.

Overall, the commercial and defense and security markets we serve remain large, our current portfolio of products and services is a great strength and source of value for us, and we are making solid progress on the strategies we're pursuing.

Turning to the fourth quarter and 2010 highlights on Slide 3. Our core programs executed exceptionally well in 2010. 737 and 777 continued to realize productivity gains during the year. Services performance across both businesses was strong, and core defense programs performed well despite a challenging contracting environment.

Our overall backlog increased last year, with book-to-bill ratios above one in both of our big businesses. Commercial Airplanes delivered 462 airplanes during the year, including a record number, 376 737s. Net orders for the year of 530 units greatly exceeded our initial expectations, as the airline industry experienced its strong rebound.

On the development side, the story was more mixed. While we made significant progress during the year on flight testing of the 787 and 747-8, we continued to face challenges in fully meeting our commitments.

As you recall, just over a year ago, we made the first flight of the 787 and entered the beginning stages of our flight test program. Since that time, we have flown more than 2,500 hours on over 800 flights. We have completed just over 75% of the flying required for certification and delivery of the first 787, while retiring a significant portion of the high-risk test conditions.

We've also made steady progress in the production system. There has been improvement in the quality of shipments to final assembly from our supply base and travel work on current production units continues to decline. At the same time, we have had discoveries during flight test, the most notable being the in-flight electrical incident this past November that resulted in the move of first delivery to the third quarter of this year.

As we return to full certification testing over the next few weeks, we continue to work with our supplier partners on previously identified issues. In addition, we will be working through the process of incorporating changes that have been identified during flight test on previously built units. We are currently operating at two per month production rate in final, and despite the delay in first delivery, we are continuing our efforts to reduce auto-sequence work and expect to ramp up to 10 per month by the end of 2013.

Development of the 787-9 is progressing well, as we have incorporated lessons learned from the 787-8 experience, including rigorous adherence to development program disciplines we have installed company-wide. Our first 787-9 delivery is expected in late 2013. Market demand for the 787 remains strong, with 847 firm orders at year-end from 57 customers around the world.

Turning to the 747-8. Flight testing is 2/3 complete, with over 17 hours on 650 flights. We are making progress on testing. The inboard aileron actuator and low frequency suppressant system. The program continues to expect first delivery in mid-2011. Build of the 747-8 Intercontinental passenger airplane is also progressing. First flight of the Intercontinental is on track for the end of this quarter, with first delivery expected at the end of the year.

As we look forward in Commercial Airplanes, the priorities are clear. We must complete 787 and 74-8 (sic) [747-8] development and deliver these airplanes to our customers. And we need to successfully ramp up production across all commercial programs to deliver on our backlog of over 3,400 units, and create the capacity to support further customer demand.

In Defense, Space & Security, solid 2010 operating performance generated 9% margins in a very challenging contracting environment, complimenting this performance for key accomplishments and extending our core programs, pursuing targeted adjacencies and capturing international sales opportunities.

Most recent examples of these successes during the fourth quarter include: achieving preliminary agreement to sell C-17s to India; completing Congressional review of the pending sale of F-15s, Apache helicopters and other systems to Saudi Arabia; receiving the U.K.'s Ministry of Defense Future Logistics Information Systems contract; and winning the GEO-Mobile satellite contract from the government of Mexico to deliver an end-to-end satellite communications system.

Looking forward in the Defense business, we remain focused on meeting customers' requirements affordably, while investing both organically and through acquired capabilities to compete in higher growth adjacent markets.

As we begin 2011, I am confident that we have the right plans in place to deliver on our current commitments, and that we are executing the right strategies to position our businesses for the future. With healthy core operations and total company backlog exceeding $320 billion, we have a solid foundation to support our future growth.

Now over to James, who will discuss the fourth quarter and 2010 results and our outlook. James?

**James Bell**

Thank you, Jim, and good morning. I'll begin with our 2010 results on Slide 4. Revenue for the year was $64.3 billion, down 6% from a year ago due to anticipated lower airplane deliveries and reduced Defense volume.

Earnings per share for the year was $4.45 on strong core performance across our business despite the lower volumes. Results were also affected by higher planned pension and interest expenses and higher R&D spending. 2010 EPS included $0.50 per share favorable tax settlement in fourth quarter, and a $0.20 per share tax charge on healthcare legislation in first quarter. Last year's earnings per share of $1.84 was reduced by $3.58 due to the reclassification of the first three 787 flight-test airplanes from program inventory to R&D expense and for charges on the 747 program.

Operating cash flow for the year was $3 billion. This reflects strong performance from our production and service programs, which helped mitigate continued investment in our development programs.

Now let's turn to Slide 5 and take a look at our fourth quarter performance. Revenue for the quarter was as $16.6 billion, down 8% from the same period last year due to lower deliveries and volume. Earnings per share for the quarter was $1.56, reflecting the lower revenue, the favorable tax settlement and anticipated high period expenses. The quarter also included the extension of the R&D tax credit and a special one-time contribution we made at the end of the year to our charitable trust fund. This investment was in addition to our annual normal charitable contributions.

Now let me discuss our Commercial Airplane business on Slide 6. Boeing Commercial Airplanes fourth quarter revenue was $8.2 billion, with operating margins of 7.7%, reflecting anticipated lower airplane deliveries and higher R&D and other expenses. There was no material financial impact this quarter from our decision to raise 777 production rates in 2013, as the majority of the volume benefits are outside the current accounting quantity.

For the year, Commercial Airplanes delivered $31.8 billion of revenue on 462 airplane deliveries. Operating margins were 9.4%. Results reflect strong performance on the 737, the 777 and in our services business. Commercial Services revenues grew over 11% in 2010, driven by the market recovery and focused investments.

Gross inventory for the company now includes $12.9 billion related to the 787 work-in-process, supplier advances, tooling and other non-recurring costs, an increase of approximately $6 billion during 2010. Gross inventory for the 787 is expected to increase by a similar amount during 2011 as we prepare for first deliveries later this year.

We have made substantial progress over the past year with our 787 suppliers reaching fair and equitable settlements on their assertions. We anticipate being substantially complete with supplier negotiations by the end of this year. Customer discussions are also ongoing. To date, settlement with our suppliers and customers are tracking to our expectations. We assess the profitability of the 787 program as part of our normal quarterly closing process. The analysis evaluates all the revenue and cost assumptions associated with the expected initial accounting quantity.

As of fourth quarter, we have determined that the program is not in a loss position, including the additional costs associated with the recently revised schedule. The cumulative impact of the 787 schedule revisions has put pressure on program profitability, and the team continues to evaluate improvement opportunities to offset these pressures.

Boeing Commercial Airplanes 180 gross orders during the quarter, including 162 737s and nine 777s, while 22 orders were canceled. The commercial backlog remains strong, with over 3,400 airplanes valued at $256 billion.

Now let's move to Slide 7 and talk about our Defense, Space & Security business. Boeing Defense, Space & Security reported fourth quarter revenues of $8.2 billion with operating margins of 10%, reflecting strong performance across the majority of its programs despite fewer deliveries and lower services volume.

Boeing Military Aircraft recorded a charge of $136 million on the AEW&C during the quarter, primarily for resolution of technical performance issues associated with the test program for Peace Eagle, and additional software development in testing required for acceptance of the Wedgetail aircraft this year.

For the year, BDS generated $31.9 billion of revenue and delivered 115 production aircrafts and four satellites. Operating margin of 9% for the year, reflects solid performance across core programs, offset by challenges in the current defense environment and charges related to the AEW&C. Boeing Defense, Space & Security backlog remains strong at $65 billion, which is approximately 2x the unit's annual revenue.

Now let's move to Slide 8 and talk about our other businesses. Boeing Capital continues to perform well as it reported $6 million of pretax earnings in the quarter and $152 million for the year. The portfolio balance at year end was $4.7 billion. That's down $1 billion from the end of 2009.

During the fourth quarter, we recorded a non-cash income tax benefit of $371 million, or $0.50 per share resulting from settlements with the IRS for the 1998 through 2003 tax years. As expected, the fourth quarter also included the benefit of $154 million, or $0.21 per share from the extension of the R&D credit for the 2010 tax year that was signed into law in December.

Our pension asset returns for the year were 12.7%, driven by strong performance in nearly all asset classes. Discount rates decreased from 5.8% in 2009 to 5.3% at the end of 2010.

The company's pension plans are now 83% funded on a financial accounting basis, and that's down from 88% funded at the end of 2009. On a [indiscernible] basis, our plans are more than a 100% funded. 2011 pension expense is expected to be $1.8 billion, an increase of $650 million versus last year, driven by the lower discount rate, a decrease in our long-term expected return assumption to 7.75%, actuarial updates, and the amortization of asset and liability performance from prior periods.

During 2010, we contributed $35 million to our pension plan and expect required contributions over the next couple of years to be minimal. We do plan to make a discretionary contribution of approximately $500 million in 2011.

Now let's turn to Slide 9, and discuss cash flow. We generated $3 billion of operating cash flow in 2010 on strong operating performance in our core program, advanced payments received on orders and timing of certain receipts in the Defense business. Capital expenditures of approximately $1.1 billion were less than expected, as some of the expenditures have moved into 2011.

Now turning to Slide 10. We ended the year with $10.5 billion of cash and marketable securities. Debt levels remained flat during the quarter and decreased $500 million from 2009 due to Boeing Capital debt maturities. Our cash position provides strong liquidity, as we continue investing in our development program and in our growth strategies.

Now let's turn to Slide 11 and take a look at the outlook. Guidance for 2011 reflects solid operating performance on our production and service programs, higher pension expense, the revised 787 schedule and the current defense contracting environment.

Revenues for 2011 are forecasted to be between $68 billion and $71 billion EPS guidance is at $3.80 to $4 per share. This includes $1.58 per share for total pension expense, an increase of $0.58 per share from 2010.

EPS, excluding pension expense and tax adjustments, is expected to increase approximately 6% as compared to 2010. The 2011 commercial delivery forecast is between 485 and 500 airplanes and is sold out. This includes a combined 25 to 40 787s and 747-8 deliveries, split roughly equally between the two programs.

On operating cash flow, we expect the two-year, 2010 and 2011 cash flow to remain the same as prior guidance. 2011 operating cash flow is now expected to be greater than $2.5 billion, including the $500 million of discretionary pension funding.

We expect first quarter revenues, EPS and cash flow to be the lowest during the year, based on timings of volume and expenditures. First quarter EPS is estimated to be approximately [ph] 15% of full year earnings. Operating cash flow is expected to be negative in the first quarter.

In 2011, we expect Other segment expenses to be about $250 million and unallocated expenses to be about approximately $900 million. R&D expense for 2011 is now forecasted to be between $3.7 billion and $3.9 billion, including impacts of the recently revised 787 schedule.

We're forecasting capital expenditures to be $2.3 billion in 2011. Now this represents continued investment as the 787 final assembly line in Charleston, as well as investments to ramp up commercial production rates, and it also recognizes ongoing capital improvements that have been deferred over the last couple of years.

Now let me turn to Slide 12, and discuss how we bridged our 2010 performance to our 2011 guidance. First, we exclude the unusual tax adjustments experienced in 2010. I've already discussed that we expect pension expense to be $650 million higher in 2011 driven by lower discount rates, lower expected rate of return, actuarial updates and continued smoothing of prior year losses.

R&D is expected to be down $200 million to $400 million from 2010, as the 787 and the 747-8 start deliveries later this year. Fleet support costs will increase as these airplanes are put into service. The early 787 and 747-8 deliveries will be dilutive to Commercial Airplane margins, as our guidance assumes essentially zero margins on these initial delivery.

Volume, along with other ongoing efforts demand has cost and drive productivity, will offset some of the pension headwind this year. Our segment guidance does consider risks associated with our development program, production ramp up and the current defense contracting environment.

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

**W. McNerney**

Thank you, James. Let me close by simply reiterating our focus and priorities. To deliver on our development programs, successfully ramp up production rates at Commercial Airplanes, extend and reposition our Defense business, and continue to harness the earnings power of our core production and services programs across the company. I'm confident in our team and our abilities to deliver on these priorities.

The underlying operating engine of this company is running very well. It provides the foundation and strength to support our development efforts and deliver on our growth and performance in the future.

With that said, we'd be glad to take your questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] First is Ron Epstein with Bank of America Merrill Lynch.

**Ronald Epstein - BofA Merrill Lynch**

When we think about what's going on with the re-engineering with the A320 NEO, the traction it had in the market and the C Series, how should we think broadly about product strategy of Boeing in terms of re-engineering, a new airplane, maybe both? How does the 757 factor into it, if you can offer some color on that?

**W. McNerney**

Well, this is Jim. Listen, I think the framework for thinking about it is the same as when we last talked about it, which is the airplane -- if we come up with the right airplane in roughly the 2019, 2020, somewhere in there, I personally feel that there's a strong argument that the market will wait for us, notwithstanding the re-engineering. Most of the feedback we're getting from customers is in alignment with that, but we've got to work through and we are this year, working through what the airplane will more precisely look like. So for me, putting our backlog at risk twice, once for the re-engineering, not to mention the cost of two development efforts, and then again, with the new airplane, only makes sense if the new airplane wants to be developed in 2025 or beyond. And I think based on what we're learning to date about what our customers need and what technologies we have available to us, I think we're leaning toward the development in the 2020 timeframe, but we're going to confirm that as we go through with this year. Preserving the option, if we're wrong as we go through the analysis to re-engine, but I don't think it's going to turn out that way.

**Operator**

And next, we have Doug Harned with Sanford Bernstein.

**Douglas Harned - Bernstein Research**

Following on that, if you look going forward, you've got the 787-9 design to complete, potentially 787-10, some action on the 777 and then a response to the A320 NEO, which could be a new airplane or a re-engine. When you look at all this together, how do you see the requirements for R&D and CapEx? If you look out over the next five years, should we expect these to be up? Down? How do you look at that? This is a lot on your plate.

**W. McNerney**

No. I agree, Doug. I mean, I think what I would look for though is R&D down in the medium term. I mean, I think the -- if this scenario plays out, new airplane developments, except for a possible derivative as you point out, 787-10 would be an example of that. I think those are going to tend to be in the second half of this -- the derivatives will be in the second half of this decade, and then new airplanes will be at the end. If that situation plays out, we're going to be down for a few years on R&D. That doesn't mean we're not working on the things we have to work on to get these airplanes out. As you can tell, there is a lot of investment in research and development in this company, even $1 billion lower than we would be at next year for example. And so I think you would -- we can still sustain the investment in people and technology we need to get to those new planes significantly down from where we are today.

**Douglas Harned - Bernstein Research**

So are you looking to take engineering resources down over the next two to three years?

**W. McNerney**

Well, I think, yes. I mean, I think some engineering resources will go down, some will go up, but the net will be down and these aren't all internal costs, as you know, Doug. I mean a lot of these are external costs. But we will fight hard to preserve the core engineering capability in this company during a period even when we're down. I think the way to look at it is we're extraordinarily high now, and not so much that we'll be cutting to the bone then. I mean we are writing very high to get these development programs done, and we're paying the price for being late. But I'm going to make sure that we don't cut too deep. We have done that before in our history and we're not going to do it again.

**Douglas Harned - Bernstein Research**

But if I can, the two programs that are not a derivative, it could be a 777 replacement or a new 737. If those are coming at the end of the decade, if they were to come together, that would be an extraordinary amount?

**W. McNerney**

You're right, Doug. I'm not being very clear. We're going to make sure they don't come together, okay? Yes, I think that's one of the independent variables in the equation. And as we look at the market, we think that is going to make sense for a marketplace standpoint too.

**Operator**

And next, with Sam Pearlstein with Wells Fargo.

**Samuel Pearlstein - Wells Fargo Securities, LLC**

I just wanted to follow-up a little bit on the cash flow. At this time last year, James, I guess you provided what the next year's cash flow from operations would look like, which at that point presumes you'd be on the certification. So I'm wondering, if I just look at the CapEx this year, which, I'm wondering first of all, is that a peak number? Does that fall as we look out into 2012? And what's your sense as to what cash flow from operations would look like out into next year?

**James Bell**

So yes, the CapEx you're seeing next year would be a peak number. Again, it's because a lot of the expenditures, specifically on Charleston slip from '10 to '11, just some timing and then also some of the catch-up for some of the infrastructure effort that we haven't done, if we really managed cash more tightly over the prior years. So I expect that to be a peak. What we told you last year over this two-year period, we'd be over $5 billion in cash and we're sticking to that even though we've added to the cash pressure, the fact that we're going to make a discretionary contribution to the pension plans of $500 million. So I think that what you see happen in '11 is going to be very closely tracking to the guidance that we provided for '11. But I also want to remind you that as we think about going beyond that, the rates we've announced on 777 and on 737, the benefit of that will start occurring in '12. As Jim just mentioned, as we look out and see us getting done with the 787 and 747 programs, the principal development in '11, we'd see R&D go down. So I think you could see that '11 is the year that we're really focused on now and have some challenges with it. But if we get through the things that we have on our plate to get done with, I think after '11, you'll see cash flow jump back up.

**Samuel Pearlstein - Wells Fargo Securities, LLC**

And if I can just follow-up one question on the 777 is, at what point do we see that block get extended just because it seems like it was only 240 or so planes left in the block, and now a rate increase up to 8.3 a month, it would seem like we should be seeing a lot of orders and options, exercises, et cetera to drive that?

**W. McNerney**

There were certainly upward pressure. We have a process we religiously follow. It wouldn't be a total shock if at some point, it did get extended, but we're working through it right now.

**Operator**

And next, we'll go to the line of Heidi Wood with Morgan Stanley.

**Heidi Wood - Morgan Stanley**

There seem to be some debate about ETOPS, and so I just kind of want to understand how to conceptualize this. Can you or will you deliver the 787s in 2011 without ETOPS, i.e., you have ETOPS since the 2012, do you still deliver in '11?

**W. McNerney**

No. Heidi, this is Jim. No. I mean ETOPS is fully in the schedule, and is contemplated to be completed. I mean we don't want to deliver these airplanes without ETOPS, and neither do our customers and neither does the [indiscernible] by the way.

**Heidi Wood - Morgan Stanley**

Back in October of '97, you had some productions snap [ph] boost and I remember you had 53,000 jobs behind schedule. You change [ph] your sked down but it had some pretty significant cash flow implications. Now here on the outside, we can't tell if that's analysis or not but there seems to be an understanding that there may be 100,000 rework or out of the sequence jobs on the 787s, or maybe that's what was reported. But how should we think about the cash flow and the accounting implications of this additional work? And is it in negotiations between you and your suppliers or do you have to foot the bill?

**W. McNerney**

There's a lot of questions in there, Heidi. The high-level answer is that we think that this situation is more manageable than the one in '97 turned out to be. That's the high-level answer. Now that doesn't mean it's without challenges because suppliers are delivering higher level of aggregation to us than they were back in times past on the 737 program. And as a result, there is sort of a double whammy. If they deliver it not completed, that's work that we've got to do that was unanticipated as you know. I'm telling you something you know. But we are seeing now on the current airplanes very high levels of completion. I mean we are now through a lot of the issues that caused some of the backed up work. And on top of that, there's been some engineering change based on what's going on in the flight test program. But that is beginning -- it has been for the last couple of months to get under control. So still challenging, fully built into the schedule, healing up in terms of the suppliers getting the work done, less for us to do, and fully contemplated in the schedule.

**Heidi Wood - Morgan Stanley**

But the planes on the ramp, that's incorporated in your cash flow for 2011?

**W. McNerney**

Yes.

**Operator**

And next, we have Joe Campbell with Barclays Capital.

**Joseph Campbell - Barclays Capital**

We were a little surprised to see that despite another delay in starting the 787 deliveries, and despite deferring this year's previously planned ramp up to seven a month, that was to occur during 2011 with the ramps, with the production struggling during 2010, at two a month, and staying at two a month, you're still going to ramp up to 2013 to 10 a month. So I apparently, you're going to be able to ramp up faster than you ever planned before. And I was wondering, hey, how are you going to do this and how important was this decision to keep the ramp to the financial observations that the programs not in a forward loss and related to the inventory in the same ramp question? Apparently, we're going to have $18 billion worth of 787 inventory for coming out at '12 and adding six. Is the ramp up that's contemplated going to force the 787 inventory up higher than the $18 billion or is that the end of it?

**W. McNerney**

Joe, the quick way into the end zone on your question is that we had a very conservative view and a significant amount of margin in our production ramp up plans. A lot of that margin is now eaten up by this latest delay. But we are not changing significantly, the trajectory of our ramp as compared to what we planned before.

**Joseph Campbell - Barclays Capital**

Well, I don't think that's right. I think at 20 -- weren't you going to ramp up during 2011, during this year? We were going to start delivering in February or so, and weren't we going to ramp up?

**W. McNerney**

That's part of my answer. Everything slid to the right, roughly equivalent to the delay and that is offset by a contingency we had in 2013, okay? So we had a very conservative view of the ramp when we talk to you, and a lot of that margin is now gone.

**Joseph Campbell - Barclays Capital**

And it seems like two to 10 is a pretty speedy ramp?

**W. McNerney**

Well, I mean, there is no question the ramp is challenging. It was going to finish earlier than the end of 2013 by our internal plan, but that's largely eroded at this point with the slide.

**Joseph Campbell - Barclays Capital**

And then about the money, I mean, assuming that -- is that a key factor in keeping the no-forward loss assumption? And how does it play out with the cash and the inventory with accounting from the $18 billion?

**W. McNerney**

I'll let James answer that one.

**James Bell**

Joe, it's not a key, it's another element that has to be taken in consideration in terms of additional costs associated with the scheduled sliding. But it alone, with a lot of the other assumptions, as well as the improvement we're making and being able to confirm now and include in our assumption. So it's a factor but clearly, it alone would not have a significant impact on whether the program would be in a loss position, or not. But clearly, it's something we had to take in consideration and address. The cash has been -- the cash impact of the slide is in the guidance. We do understand that, as well as what Heidi mentioned earlier, about the behind schedule auto-sequence work. We have taken all that in consideration in our review for determining whether the program was in a forward loss and our going forward cash projections.

**Joseph Campbell - Barclays Capital**

James, what I was asking though was, so if we end this year at $18 billion and we're going at two a month all year long. And then in 2012 and 2013, we began the steady drumbeat from two to 10, and we started say, 2012 at something like $18 billion of inventory, $12 billion plus $6 billion. Does the $18 billion then rise to some larger number because of the ramp up? Or does the $18 billion start to go down because of the deliveries?

**James Bell**

Yes. The $18 billion will still go up, Joe, but at much lower rate as we start to deliver and relieve the inventory. So that's the way to think of it. It won't be growing at the same pace of $6 billion a year. I mean, you will still have some entries but it'd be a lot lower rate than what we've experienced to date.

**Operator**

Our next question is from Joe Nadol with JP Morgan.

**Joseph Nadol - JP Morgan Chase & Co**

Could we speak to a little bit to the certification process with the FAA, specifically? It seems like over the holidays, the return to flight, into certification flight was delayed for a few weeks, and then the language in your press release a couple of weeks ago, seem to intimate that the goal posts might be moving a little bit, and that may be you don't quite know where they are. I'm just wondering if you could specify that you do know everything you have to get done to get certification and ETOPS certification, and I guess, how that process has evolved?

**W. McNerney**

Well, I mean one way to answer your question, I think, is that we have a very clear view of what we need to do. The FAA has been working very closely with us. Now the clear view of what ETOPS is, is ETOPS is different this time around than it was on the 777. The FAA quite properly has got a new way -- it used to be just sort of cycle-based back in the 777 days. Now it's kind of fault-based, condition-based. And so it is a series of tests that we got to go through, we understand them. The question is exactly what data is applicable to each test point, the FAA, and we are working together to make sure we do it right. And so we've got a little wiggle room in the sense that it's the first time we've been through it. We think we understand it. Could it be a couple of weeks less, or a couple of weeks more? That's all encompassed in the margin in the guidance as we go through this different ETOPS testing regime. We've largely gotten most other things done. So we got to get this one done.

**Joseph Nadol - JP Morgan Chase & Co**

So you completely agreed with them, and you're all perfectly synchronized on with the electrical system and software versus hardware updates, and wiring and all that, where we know exactly where we need to go?

**W. McNerney**

Yes. I think, yes, we are in agreement. We've got a temporary fix in right now that we're all flying with for score, the FAA is flying with us, and we'll be implementing a permanent solution on all the airplanes that we have all been discussing and all understand as we go into ETOPS. That fix needs to be in before the ETOPS testing. But that's, I think, it's very fair to say that the FAA and our people are working very closely together, have a common view and there is no misunderstanding between us about what needs to be done on what timing.

**Joseph Nadol - JP Morgan Chase & Co**

James, just a clarification, if I might, the 787 the fleet support and other investment, the $300 million that you're expecting in BCA in 2011, am I wrong to say there might be some contingency in there and that's where it's being built-in? If not, can you explain exactly what that is and why that's not R&D?

**James Bell**

Yes, that is not contingency and there's not any built-in. That is preparing to support the airplane when it enters into service and stuff like having that's being ready to help the pilot be prepared to fly the airplane and to be able to support the airplane wherever it flies. And by the way, when you think about fleet support, we have it on the 777 and the 737, the airplanes that are already in service. Why it's such an issue here or such an impact to earnings is because obviously, one, we're not delivering yet and two, when we do deliver, we're expecting zero margins. So it's not covered by the gross margins of the program, but it is. The infrastructure that needs to be put in place when you put an airplane into service, that's going to fly all over the world.

**Joseph Nadol - JP Morgan Chase & Co**

But you only have a couple of customers getting deliveries this year, and that's going to grow substantially next year. Is that number going to grow a lot as you put more customers into -- as they go into servicing the plane?

**James Bell**

First of all, just putting the infrastructure in, it didn't have to be service. So the growth won't be as sizable, but it will grow to a level and it will be at a sustained -- one that will be sustained overtime according to what that infrastructure is.

**Operator**

And next, we go to Cai Von Rumohr with Cowen and Company.

**Cai Von Rumohr - Cowen and Company, LLC**

So your R&D was at a very high level commercial in the fourth quarter. How much of that was supplier negotiations? And you gave us some color on the earnings in the first quarter. Could you give us some color on the pattern of expected R&D spending throughout the year and the expected pattern of kind of period expense in 787 support over the year?

**James Bell**

Yes. So some of the R&D -- the high R&D at the end of the year was associated with the change in the model on the 787-9, where we are maintaining the control and design of that whole program. And so we are paying the suppliers, we're contracting with our supplier base as we go. So a lot of the growth was associated with that and I don't have the exact number, but that's what a lot of what you saw in terms of increase over the normal run rate was associated with that, Cai. Going forward, obviously, the run rate will be higher, the first part of the year and tail off at the end as we complete certification and start delivering it. So I think you should look at the profile, higher in the first half, starting to diminish over the last half.

**Cai Von Rumohr - Cowen and Company, LLC**

And then the 787 support pattern?

**James Bell**

It will be flat.

**Cai Von Rumohr - Cowen and Company, LLC**

What? Flat throughout the year?

**James Bell**

About, yes.

**Cai Von Rumohr - Cowen and Company, LLC**

But I mean if your R&D starts out high and have an abnormal in the fourth quarter, that would suggest your run rate should be down fairly substantially in 2012 on the R&D, is that correct?

**James Bell**

That would be the expectation if everything goes according to the current plan and the current schedule.

**Operator**

And next, we have Rob Spingarn with Credit Suisse.

**Robert Spingarn - Crédit Suisse AG**

So you've guided the 25 to 40 combined on the new widebodies. I'm wondering if you can separate this a little bit by program? We know that there's 18 74s, at least we believe by contract based on what the databases say. And then continuing with regard to the 787s, which line numbers would these deliveries be given the re-sequencing you've talked about? And then finally for James, part of the question, how much cash flow, operating cash flow is associated with these particular deliveries?

**W. McNerney**

Your guess is about right. It's roughly a 50-50 mix between the two airplanes, the 25 to 40. We're still sorting out, precisely which line numbers will go first. We have -- I don't want to give you the current view because it could change by an airplane or two, but we're getting pretty close to knowing precisely. James?

**James Bell**

Yes. On the cash part, the way the model works, we get about 40% of the cash before we deliver at about 60% at delivery. I haven't worked the numbers but it's not a significant piece of the cash we are estimating or guiding you to next year, but it does contribute to our overall operating cash picture.

**Robert Spingarn - Crédit Suisse AG**

And so James, if 787 slipped out of the year, how would that effect the $2.5 billion?

**James Bell**

It would have an impact, it would be lower, though I haven't calculated the numbers, but it would be lower.

**Operator**

Our next question is from David Strauss with UBS.

**David Strauss - UBS Investment Bank**

Are you guys ready to disclose the block size that you're assuming on 787 given that it's margin or lack of margin is now incorporated into the actual guidance at this point?

**James Bell**

No. And the zero margin has been incorporated in the guidance. We've been saying that for the last year or two, but we are not yet ready to dispose what the opening initial accounting quantity will be.

**David Strauss - UBS Investment Bank**

Would it be upon first delivery? Or when would you do?

**James Bell**

Yes, upon first delivery.

**David Strauss - UBS Investment Bank**

And then as a follow up, we've been kind of dancing around this. But on the reworked airplanes, can you give us an idea of how many, roughly how many units there's significant rework to be done and when you would expect to have all those reworked airplanes delivered based on your current delivery schedule?

**W. McNerney**

Well, I mean, yes. I think it would be sort of in the 20 to 25 area. I mean another way to look at it is we're working on -- I'm looking at some of the guides here about airplane 31 now and the completion, there were completion rates on the incoming is very, very high. And so our production system is getting stable. But in the first 20-plus airplanes, there's still some work to be done and we're going through it.

**David Strauss - UBS Investment Bank**

But no estimate when those wash should be delivered?

**W. McNerney**

We do have a current estimate within our own production planning system, but it does move around a little bit. So we're just -- we're not going to disclose that.

**Operator**

And next, we go to Myles Walton with Deutsche Bank.

**Myles Walton - Deutsche Bank AG**

Just switching gears a little bit on Defense. I'm curious on the BMA margin for 2010 and the outlook, just trying to map the two. It looks like in 2010, you probably had 200, 250 basis points of headwind from unique charges, AWC tanker, C-17 EACs and yet you're looking for a flat margin guidance for 2011. And I'm just curious, is that all the C-17 lower rates and repricing elsewhere across the business? Or is there something else?

**James Bell**

Well, it's that and there's the mix of delivery that we expect to see in 2011.

**Myles Walton - Deutsche Bank AG**

So does that mean indicatively though, your F-18 multi-year starts to get repriced in '12, your lower rates in C-17. So I mean if you have a 200 basis points organic drop '10 to '11, what should we conceptually think about '11 or '12?

**James Bell**

Well, I mean for the FAAs, you'll see more of the impact after '11. But in '11, you'll see us delivering at AEW&C at zero margin and that will have a diluted impact. And also, the tanker, also at zero margin. So that's the mix issue along with the contracting environment where we're seeing lower profitability on some of these contracts.

**Myles Walton - Deutsche Bank AG**

And then a quick one on the 787. In the release, it mentioned that there is some scheduled margin and there. Are we talking days, weeks or conceptually, a month?

**W. McNerney**

I think it would be more on the weeks category.

**Operator**

Our next question is from Noah Poponak with Goldman Sachs.

**Noah Poponak - Goldman Sachs Group Inc.**

You guys have already announced a series of production rate increases at BCA. But you started the year close to a record backlog and it actually had backlog growth. Can you just touch on how much upside there still is versus what you've already announced? You've talked about exploring where to ultimately go on the 737. Can anything be accelerated? And just strategically, how are you balancing the efforts to dampen the cycle that you've talked about before versus having maybe overdone that a little and needing to catch up on demand?

**W. McNerney**

No. I think the best way to answer that question is, and we go through each of our programs asking the question that you're asking, and I think when you take everything into account, demand, backlog, supplier readiness, investment, and take that all into account, there's more bias to move up than there is to move down from the announcements we've already made. So we've got to sort through that, make sure it makes sense, and we're a long way from announcing anything different than we've announced. But I think when you take all that into account, there's, as you point out, that there is I think, on balance, some opportunity.

**Noah Poponak - Goldman Sachs Group Inc.**

It's there potential to accelerate anything that's been announced or is that something the supply chain is just not ready for?

**W. McNerney**

Yes, I think it's the latter. I think there's -- we're always asking the question but we're mindful of the readiness of our supply base, very mindful of that. As Heidi pointed out earlier, lived through an experienced what we don't want to live through again back in 1997. So those announcements are pretty solid. I think it's beyond that, that we're looking at.

**Operator**

And next, we go to Troy Lahr with Stifel, Nicolaus.

**Troy Lahr - Stifel, Nicolaus & Co., Inc.**

Wondering if you can just speculate on how many orders you're kind of thinking about for 2011 out of BCA? And then how are your conversations with customers going? Are you seeing more discussions with the domestic carriers, looking to recapitalize their fleet?

**W. McNerney**

I think the discussion level is about the same as it was this year, which is higher than we thought going into this year. Now, whether that converts to orders that are the same, a little less, a little more, it's really hard to know. I think we tend to approach this pretty conservatively and we'd rather be surprised. But the level of discussions are still high, and what gets converted remains to be seen. And it could be up, could be down, but we'll have to see.

**Troy Lahr - Stifel, Nicolaus & Co., Inc.**

But kind of in line with orders, maybe plus or minus some for 2010 though, or kind of more in line with deliveries, do you think?

**W. McNerney**

I really don't -- if I knew, I'd tell you. And therefore, I really want to hedge. I mean I'll just say discussions with customers are about the same level as they were during this year, and what that produces will remain to be seen.

**Troy Lahr - Stifel, Nicolaus & Co., Inc.**

Are you seeing the domestic carriers start to talk more or same type of customer mix?

**W. McNerney**

I still think the -- it's really across the board, as I see it reflect on it. I mean I think most areas of the world are -- I'm just thinking through my head, most areas of the world, there's a pretty good pipeline of discussions going on, including the U.S. I wouldn't say, other than the Middle East and Asia, I wouldn't say anything else really stands out.

**Operator**

And that will be from the line of Jason Gursky with Citigroup.

**Jason Gursky - Citigroup Inc**

One quick question on the Defense side of the business. You've mentioned margin pressures. But I was wondering if you can talk a little bit about the repetity [ph] at which new programs are getting awarded, and whether we're continuing to see a slowdown in the process, or whether we've maybe perhaps now finally, stabilized and how fast you can get contracts to finitize, et cetera?

**James Bell**

I think your question was around the speed of getting contracts from the U.S. government?

**Jason Gursky - Citigroup Inc**

Yes, that's right.

**James Bell**

Well, I don't think we've seen any deliberate slowdown. What I think is happening there, there, clearly, are fewer programs that are being competed now. And I think that those that are, there is an obvious say, focus on making sure there is a disciplined process in to barely go out and procure those. But I wouldn't say that we've seen any slowdown. Obviously, taking the tanker out of that equation, obviously, that has been more prolonged because some of the issues and challenges they've had on that procurement. But in general, I would say not.

**Operator**

And ladies and gentlemen, that completes the analyst question-and-answer session. [Operator Instructions] I'll now return you to the Boeing Co. for introductory remarks from Mr. Tom Downey, Senior Vice President of Corporate Communications. Mr. Downey, please go ahead.

**Tom Downey**

Thank you. We will continue with the questions for Jim and James now. If you have any questions after the session ends, please call our Media

Relations team at (312) 544-2002. Operator, we're ready for the first question and in the interest of time, we asked that you limit everyone to just one question, please.

**Operator**

At first, we'll go to the line of Susanna Ray with Bloomberg News.

**Susanna Ray - Bloomberg**

I am wondering at what percentage of the aircraft orders that you've won in the last, I don't know, six months or whenever, represents penalty payments or penalty for the 787 delays perhaps from a discount, or if there's any kind of color that you can give us on that?

**W. McNerney**

The answer would be very few.

**Susanna Ray - Bloomberg**

Can you say anything further? What does very few mean?

**W. McNerney**

No, I'm struggling -- I mean very few means very few. I mean most of the orders were straight up or conversions of options.

**Susanna Ray - Bloomberg**

So we're talking less than a dozen or...

**W. McNerney**

I really don't know, Susanna. I don't have that number here in front of me, but there weren't very many. I'm struggling to think of any, but we'll get back to you.

**Operator**

And next, we'll go to the line of Dominic Gates with Seattle Times.

**Dominic Gates - Seattle Times**

First of all, I just wonder, could you say anything about your employment projections, headcount projections for the year ahead, especially in BCA? And if you could with Puget Sound region?

**W. McNerney**

I think BCA headcount will go up somewhat this year in support of the new airplane introductions and the readiness prep, and that would be both in Puget Sound and in Charleston.

**Dominic Gates - Seattle Times**

I think a number was quoted recently, 45,000, is that about right?

**W. McNerney**

That's a total company number, Dominic. I think that you're remembering a quote in response to a question I had a month or so ago.

**Dominic Gates - Seattle Times**

Could I ask James a question, or perhaps to both of you, but James mentioned increased R&D in the last quarter because of a change in the way you're handling the 787-9. I think you said you're maintaining more control of that or taking more control of it. Could you elaborate on what that means? How differently are you doing the 787-9? Does this really change the relationship with your major partners and does it do it with all of them?

**James Bell**

It doesn't change the relationship. It does change how we're executing that particular development effort. As you recall on the base development, the partners had more economy as to going out developing their particular fees and they recover those costs as they delivered the units, and they were amortized over their delivered units. On the 787-9, we're keeping a little more close control and doing it more typically how we've done it in the past where we would outline what the development effort is and contract with the supply chain for their particular piece, which means we would pay them as we go. And so what you saw in the fourth quarter was that change.

**Dominic Gates - Seattle Times**

That does sound like a change in the relationship instead of previously, it used to be build-to-print, then you changed it to letting them design the detail stuff, and now it sounds like you are giving them less control and changing the way you pay them?

**James Bell**

Yes. It's on the development piece only, the design/development end of it only. I mean we wanted to be involved, more engaged. We found ourselves having issues on the original program, and we found some ways to improve on that, and so when we got into the development phase of the 787-9, we implemented those lessons learned and that's what it is. I mean for the production piece, clearly, it will be the same relationship we've had in the past. So it's a very small piece, it's just that the differential change from the 787-8 to the 787-9 on that effort.

**Operator**

And next, we go to Christopher Drew with The New York Times.

**Christopher Drew**

How do you feel about GE and your other suppliers transferring technology like the 787 core computing system to the C919? And everyone always talks about how U.S. companies are the way to stay ahead is just to continue to stay ahead on innovation. But how realistic is that for our company is to be able to do that as you look out in the long run?

**W. McNerney**

Well, I don't want to answer for GE, Christopher, as you can imagine. I don't think -- I think you're talking about the Avionics deal. I don't think that, that threatens the proprietary nature or the innovativeness of our airplanes here. If I did, I would raise my hand but I don't see that. And we all have to strike a balance between protecting our IP and innovating, and I don't know what's going on in the minds of the GE folks and so, and I don't want to try to represent it either.

**Christopher Drew**

In the long run, this question of the short term gain, obviously for everyone to get into this huge Chinese market versus whether we're setting ourselves up, competitors up and hurting ourselves in the long run?

**W. McNerney**

It's one that everybody has to be mindful of, I know I'm very mindful of it since I run this company. And it's always a balance that has to be struck. But you're right, I mean the way you asked the question, you cannot give up your ability to innovate just on an expedient short-term basis. That's not a winner in long term.

**Operator**

Our next question is from Glenn Farley with King TV Seattle.

**Glenn Farley**

I have a specific question for James. Early on, you were rallying off a whole bunch of numbers relating to the cost, I believe on 787 in terms of how many billions of dollars have sort of accumulated, cost we've seen in terms of delays, penalty payments, extra R&D development. Could you go back over that again?

**James Bell**

Yes. I don't think you got that right. I wasn't...

**Glenn Farley**

I think I don't, that's why I want to get down to it.

**James Bell**

Those are numbers I don't think I ever talk about. I think I was talking to the impact of moving from the inventory growth that we're going to experience -- we have experienced over the last several years and that rate of growth will probably diminish as we go in to '12 and we start delivering them. But what I was saying is that we increased our inventory last year by $6 billion on the 787 program. It will grow by $6 billion again this year, and then we would expect it to diminish, although continue to grow but at a much lower rate going into the outyears as we start delivering the airplanes and so we relieve some of the inventory.

**Operator**

That will be from the line of Mike Mecham with Aviation Week.

**Michael Mecham**

One thing you haven't talked about in quite some detail is just how productivity is there, how your development for your production lines is going. You're working on Charleston, you're a slowly developing a backup line for 787 there in Everett, and of course, 767 lines coming on. Can you just go through how Charleston's coming along and your whole outlook on your production lines?

**W. McNerney**

Well, Charleston is going along well. The final assembly capability we're building there for the 787 is actually ahead of schedule. We're feeling good about its construction and the hiring of the people that we are currently training to work in that facility. You're right, we have a surge line in Everett, which is a temporary line to give us the flexibility to make sure we move the work properly to Charleston that we're going to move. So that's all working well. The 767 line is, I guess, that really depends on tanker, yes or no. I think in either case, we have a plan for that line to either morphed into a tanker line, and as you can imagine, spent a fair amount of time planning on how we would do that and feel very confident of that move. And if we do not end up winning the tanker competition, we think there's commercial demand that can keep that line open for a somewhat longer. But I think everything's sort of in front of us. I think the bigger question is implementing all these rate increases that really are a tremendous economic opportunity for the Boeing Co. over the next two or three years. And we feel equally confident there. So production plan, you're on an important issue, production planning and execution. We're spending a lot of time on it and we feel great about the opportunity in front of us.

**Michael Mecham**

With the rate increase in Renton, is there anything special you're thinking of with regard to those two lines? Or is it just mainly an increase on the second line?

**W. McNerney**

Well, on to the rates that we have announced now, there is not too much that has to be -- you're implying big capital expenditures and...

**Michael Mecham**

Or changes in structure or whatever?

**W. McNerney**

No, not too much because this team in Renton has done a wonderful job in freeing up capacity with lean and productivity, so we're moved to one of the big bottlenecks, which was the wing operations, which has really been transformed over the last few years and you may know some of the details there but that was the last big bottleneck. And so the capacity isn't free but it isn't what you can often have in these situations. It's pretty efficient move up.