

Operator

Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's First Quarter 2013 Earnings Conference Call. Today's call is being recorded. The management's discussion and slide presentation, plus the analyst and media question-and-answer session are being broadcast live over the Internet. At this time, for opening remarks and introductions, I'm turning the call over to Mr. Troy Lahr, Vice President of Investor Relations for The Boeing Company. Mr. Lahr, please go ahead.

Troy Lahr

Thank you and good morning. Welcome to Boeing's first quarter 2013 earnings call. I'm Troy Lahr and with me today are Jim McNerney, Boeing's Chairman, President and Chief Executive Officer; and Greg Smith, Boeing's Chief Financial Officer.

After comments by Jim and Greg, we 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 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 discussions and goals this morning are likely to involve risks, which are 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 the earnings release and presentations for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now, I turn the call over to Jim McNerney.

W. James McNerney, Jr.

Thank you, Troy, and good morning, everybody. Let me begin today with an update on the 787s return to flight, followed by an overview of our business environment and some thoughts on yet another strong quarter of operating performance. After that, Greg will walk you through our financial results and outlook.

As you may recall in January, I described returning the 787 to service as our first order of business. Nothing is more important than the safety of the crews and passengers who fly our airplanes and nothing rallies our team

more than the challenge of resolving issues that affect our customer's ability to operate those airplanes as intended.

Over these many weeks, hundreds of experts from across Boeing, our supplier partners and other outside organizations work day and night along side U.S. and Japanese authorities to identify the factors that could have caused the 787 batteries to fail and then to design, develop and test a comprehensive permanent fix.

Last Friday, the Federal Aviation Administration formally approved our proposed solution after carefully examining results of a rigorous month-long certification test program. In short, our battery system improvements include multiple layers of protection to prevent and isolate potential faults along with the new enclosure designed to keep any battery event from affecting the airplane or even being noticed by passengers.

After more than 200,000 hours of engineering work, validation by a non-advocate team of more than a dozen leading battery experts and now with a certification by the FAA, the 787 will return to flight with our continued high confidence in its safety, reliability and overall integrity.

Immediately upon receiving the FAA's approval last week, we began the process of installing the improved battery system on the in service fleet while also implementing the changes on new airplanes being readied for delivery in Everett and Charleston. Thus far we have started installation on 10 fleet aircraft and 9 production airplanes.

We expect to complete the bulk of fleet retrofits by mid-May. Production test flights began last week and deliveries are expected to resume in early May. And despite the three-month delivery suspension, our forecast remains to deliver greater than 60 787s during 2013.

On behalf of everyone at Boeing, I would like to thank our supplier partners, our outside battery experts, the FAA, NTSB, JTSC, and JCAB for their determined professionalism throughout this journey. We would also like to thank our customers and their passengers for enduring this disruption and inconvenience caused by this issue. While disappointing and frustrating from the outset, the silver lining in this experience has been seeing all parties in this process working to ensure that air travel remains the safest form of transportation the world has ever known.

Furthermore, the value proposition of the 787 and its game changing economics, fuel efficiency, lower noise and emissions and unmatched passenger comfort has emerged fully intact, and we look forward to reconnecting airlines and their passengers to the 787's remarkable benefits in the coming days and weeks.

As many of you know, in the 15 months of service prior to the major issue with the battery, initial dispatch reliability on the 787 was at par or better than the benchmark 777. We fully expect that trend to continue as we return the airplane to service.

Our nearly 97 years of experience introducing new airplanes also conditions us to expect additional more normal, shall we say, start up issues as more airplanes enter the fleet with more carriers in the months ahead. Our approach will be to find them, address them and ultimately ensure the 787 like every Boeing airplane before it achieves the very high level standard for performance and reliability we promise customers at the outset of the program.

With that, let's turn to the business environment on slide two. Global customer demand for our fuel efficient and value creating commercial airplane family remain strong. A factory reinforced by a healthy first quarter net new orders total of 209 airplanes, which increased our record commercial airplane backlog to more than 4,400 airplanes worth \$324 billion.

Our customers continue to replace older airplanes in favor of new ones that offer compelling economics and increased fuel efficiency. Request to accelerate deliveries also continue at a healthy pace. Passenger traffic trends remain healthy. However, we continue to see near-term pressure in the cargo market. Softness in this segment contributed to the decision announced last week to adjust the 747 program build rate down to 1.75 airplanes a month from two a month beginning in early 2014.

While we booked three 747 airplane orders in the quarter and received commitments for two more, the rate decision was made to more closely align production to near-term demand overall.

As the only provider of very large freighters, we believe our fuel efficient 747-8 is well positioned to benefit our customers once cargo market conditions improve. Airline interest in our fuel efficient 737 MAX remains significant as we now have booked almost 12,000 cumulative orders to-date. 787 backlog was further extended by 42 orders during the quarter in addition to a commitment by British Airways to exercise 18 options. We also received a commitment from Ryanair to order 175 737NGs. As a result, we now effectively have bridge production from the NG to the MAX, allowing us to smoothly transition our production system later this decade. Overall, aircraft demand remains relatively balanced geographically and our backlog remains evenly split between airplanes used to support traffic growth and fleet replacement.

We remain focused on balancing production schedules with this strong demand in order to minimize long-term volatility and build rates and maximize productivity and profitability.

Turning to defense space and security, during the quarter, we saw Congress and the administration act to avoid indiscriminate, across the board budget sequestration cuts in fiscal year '13 by passing a continuing resolution that permits the defense department to more selectively allocate spending and approve multi-year contracts for programs such as, in Boeing's case, the Chinook and V-22.

We believe this flexibility advantages our portfolio of reliable, proven and affordable systems that are on budget and on schedule. However, we remain cautious regarding the potential for further U.S. defense budget reductions and the mid to long-term impact of continued sequestration.

In the President's fiscal year '14 budget submission, we noted strong support for the majority of our core programs. Despite budget reductions at the top line level, growth is still expected in areas we have been targeting with investment and attention such as space, unmanned systems, intelligence surveillance and reconnaissance and cyber security.

With our expanded product offering and commercial satellites, we expect to pursue and capture growth in this market due to the compelling value our smaller satellites provide to global customers.

Last week's major win for the AH-64 Apache in the Republic of Korea is the latest in the series of key international competition results that reflect the alignment between our portfolio of products and services and international customer requirements in the current business environment.

International defense space and security business represented 28% of revenue during the quarter and grew to 42% of our current backlog as we continue to expand our share in addressable international markets. To enhance our competitive position in the defense market, achieving our market based affordability targets that maximize efficiencies and reduce infrastructure costs is a daily focus of defense space and security business and its multi-year effort to further strengthen its competitive position in U.S. and international defense markets.

That effort is also benefiting from productivity gains and cost savings achieved through our enterprise partnering for success initiative that we launched last fall with our major supply chain partners. Partnering for success, as you may recall, takes a team oriented approach to examine opportunities across the supply chain and design production and support to drive significant improvements in quality, flow and efficiency that will

increase productivity and lower cost for customers. It's a win-win for us and our suppliers in step up for the challenge and secure future growth in so doing by increasing customer value today.

During the quarter we also succeeded in averting a work stoppages through successful negotiations of a new four-year contract with our engineering and technical worker's union in Puget Sound who support our commercial airplanes and defense programs in the region. This agreement also helps mitigate our future pension liabilities by including a define contribution plan for all new hires.

Moving on to slide three. Our business and core functions performed extremely well during the quarter as we reported strong revenue, expanded operating margins, and solid operating cash flow. Revenue at commercial airplanes was \$10.7 billion and operating margin grew to 11.4%, resulting from solid program execution and lower margin dilution from fewer 787 deliveries than originally planned.

As an example of our continued efforts to improve productivity and efficiencies, we announced the consolidation of our North American flight training operation into our existing Miami facility. We are also reducing our infrastructure primarily on the 787 as we capture efficiencies and production stabilizes.

We delivered 137 commercial airplanes and successfully executed multiple plan production increases including increasing the 777 rate to a record 8.3 airplanes per month and raising the 737 to a record 38 airplanes per month, the next increase to 42 per month coming in the second quarter of 2014.

We also initiated the rate break to 7 per month as planned in 787 final assembly. Production health on the 787 continues to improve and we remain on track to increase the rate to 10 per month by year end. On our commercial airplane development programs, we have effectively completed engineering work on the 787-9.

The first airplane is expected to enter final assembly in Everett at mid-year followed by first flight in the second half of this year and first delivery in the early part of next year. The 737 MAX development also remains on track with firm configuration expected mid-year and entry into service as planned in 2017.

On our twin-aisle line-up with the 787-10X and 777X, we continue to progress through our disciplined gated development process focusing on affordability and discussing with customers their requirements and the technology they value. These are very attractive investments that leverage

prior lessons learned and previous technology development efforts, all of which will increase shareholder value.

The business case continues to strengthen for the 787-10 and the customer interest in the airplane is high due to its compelling price and value equation for both us and our customers. We continued to anticipate the potential launch of the 787-10 this year. Likewise, the business case for the 777X also continues to mature as we further evaluate options including design and production locations.

During the quarter, we selected GE as the sole source engine manufacturer for the 777X program, new engines and an all new composite wing that leverages the design and technologies of the 787 wing along with other meaningful improvements will make this airplane immensely competitive, and ensure our 777 franchise remains the standard bearer in its class for years to come. We continue to target entry into service for the 777X around the end of the decade.

Turning to the defense business, defense, space and security generated revenue of \$8.1 billion in the first quarter delivering 44 aircraft and 1 satellite. Higher deliveries on Apache C-17 and P-8 along with growth in satellite volume contributed the healthy revenue in the quarter. Numerous important awards were captured during the quarter, including contract at our small satellite business, as well as a contract for the integrated C4ISR targeting system that provides the Air Force, intelligence, surveillance and reconnaissance capabilities and targeting in one easy to use light weight handheld device.

Noteworthy milestones achieved during the quarter included the second successful test flight of the unmanned Phantom Eye, delivery of the first Indian Air Force C-17 to flight test, and completion of flight testing for the India P-8I airplane. We also delivered six P-8A to the U.S. Navy, which completes the first run of low rate initial production.

In summary, notwithstanding 787 deliveries deferred while we work through the battery issue, operationally we are off to a very strong start across the board for 2013 with solid revenues, earnings and cash generation. Our teams remain laser focused on continuing successful execution of the ongoing production and development programs that are important to our customers and are delivering value to our shareholders.

Now, I'll turn it over to Greg to discuss our financial results and our guidance. Greg?

Gregory D. Smith

Thanks, Jim, and good morning. Let's turn to slide four and we'll discuss the results for the quarter. First quarter revenue was \$18.9 billion driven by strong deliveries at both commercial airplanes and our defense business. Strong core operating margins of 9.9% in the quarter were primarily driven by solid productivity gains at both businesses and improved mix.

Core earnings per share increased 24% to \$1.73 a share in the quarter on continued strong operating performance in both commercial airplane and the defense business. As anticipated, first quarter EPS include \$0.19 from the 2012 research and development tax credit that was passed into law earlier this year.

First quarter EPS last year including \$0.11 from a favorable court adjust on a satellite litigation.

Now, let's discuss Commercial Airplanes on Slide 5. For the first quarter, our Commercial Airplanes business reported revenue of \$10.7 billion on a 137 airplane deliveries and strong operating margins of 11.4%. Commercial Airplanes operating margin benefitted from delivery mix in the quarter, lower R&D, and improved performance that was partially offset by higher period costs primarily associated with the engineering and retrofit activities on the 787 battery. The strong core operating performance in the quarter was a testament for our continued focus on efficiently executing our rate increases and driving productivity.

Gross inventory for the company included \$28.8 billion related to the 787 program, an increase in the first quarter of approximately \$3.3 billion driven by the planned increase in production rate on the program and fewer 787 deliveries in the quarter. Included in the work in process inventory are deferred production costs. The deferred balance for the program was \$17.1 billion at the end of the first quarter and includes approximately 61 airplanes still in process.

The deferred production balance is still expected to peak at slightly over \$20 billion and then decline after the program achieves the planned rate of 10 per month and stabilizes at that level. Commercial airplanes captured \$15 billion of orders during the quarter and increased backlog to a record 324 billion for over 4,445 airplanes. Customer demand for a game changing fuel-efficient airplanes remain strong as illustrated by an additional 121 737 MAX orders and 42 787 orders in the quarter.

Let's turn now to our Defense, Space and Security results on Slide 6. First quarter revenue for our Defense business was \$8.1 billion and operating margins grew to a strong 10.3% driven by improved mix and performance. International customers accounted for 28% of our defense revenue in the

first quarter and we continue to drive towards our goal of 30% of revenue going forward.

Focus on affordability continues as we remain committed to driving our market-based affordability efforts and are on track to further lowering our cost structure in an efforts to increase our productivity and strengthen our competitive position in this challenging environment.

Revenue at Boeing Military Aircraft was \$4.1 billion in the first quarter, as higher deliveries on Apache C-17 and P-8A was offset by lower F-15 volume. Operating margin of 10.5% was primarily driven by improved performance and delivery mix. Network and Space Systems revenue of \$2 billion increased 5% primarily driven by improved commercial satellites volume.

Operating margin was 8% in the quarter on favorable delivery mix. Global Services & Support had first quarter revenue of \$2 billion resulting from lower volume on various logistics contracts. GS&S had healthy operating margins of 12.1% primarily driven by improved performance at our maintenance, modification, and upgrades business.

Defense, Space and Security had solid backlog of \$68 billion. International business remains very strong with 42% of our current backlog representing customers outside the United States.

Turning now to Slide 7, the BCC net financing portfolio declined to \$4.2 billion on normal run-off and that exceeded new aircraft volume. Unallocated expense from core operations was \$170 million and was higher due to a favorable court judgment on a satellite litigation recorded in the same period last year.

Now, turning to cash flow on Slide 8, both our Commercial and Defense business did an outstanding job on focusing on cash in the quarter. Despite fewer 787 deliveries, first quarter operating cash flow was a solid \$524 million.

Moving now to cash and debt balances on Slide 9. We ended the quarter with nearly \$12 billion to cash and marketable security and timing of the 787 events limited our ability to repurchase shares in the first quarter, however, we expect to begin our repurchase plan in the second quarter and remain committed to our \$1.5 billion to \$2 billion of share repurchase planned for 2013.

Turning now to Slide 10 to discuss our outlook for 2013; we are reaffirming our guidance for 2013. We still expect 787 deliveries to be greater than 60 this year with second quarter deliveries for approximately 15% to 20% of our full-year deliveries.

Total Commercial Airplanes deliveries are still expected to be between 635 and 645 for the year. Revenue guidance for 2013 remains at between \$82 billion and \$85 billion, larger reflecting higher Commercial Airplane deliveries and continued challenging defense environment.

Core earnings per share guidance has unchanged at between \$6.10 and \$6.30 a share representing approximately 5% growth driven by continued strong execution across both businesses. Operating cash flow guidance before pension contributions remains at greater than \$8 billion reflecting higher delivery volume and again continued strong performance.

So overall, performance was strong for the quarter as we further improve productivity of both businesses, successfully increased our plan production rates, and efficiently and effectively manage cash. We expect this strong operational performance to continue throughout the balance of 2013.

Now, I'll turn it back over to Jim for some final thoughts.

W. James McNerney, Jr.

Thanks, Greg. With a strong first quarter behind us and implementation of the 787 battery solution well underway, we remain committed for the goals we initially set for 2013. That includes continued conversion of our record backlog into deliveries while generating strong core operating performance that allows us to return cash to shareholders while investing wisely in our products, technologies, and people to sustain our growth and competitiveness.

Our priorities going forward remain clear. The profitable ramp up of 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 reposition our defense business with investments in growth areas amid further international expansion and importantly returning increasing value to both our customers and shareholders.

Now, with that thought, we'd be glad and happy to take your questions.

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) And our first question comes from Howard Rubel with Jefferies. Please go ahead.

Howard A. Rubel – Jefferies & Company

Good morning gentlemen, thank you.

Gregory D. Smith

Good morning, Howard.

Howard A. Rubel – Jefferies & Company

Your operating margins were helped to some degree by the absence of 78. On the other hand, pre-RND margins on commercial were up year-on-year. And Defense business was also very strong. could you address, Jim, maybe a little bit further from your commentary, what sort of goals you're setting for your operating units so that you can see this ongoing improvement?

W. James McNerney, Jr.

Well, Howard, first of all, productivity and affordability is fundamental to everything we do, whether it's running a factory, whether it's running a back room or whether it's designing and building airplanes. So that is a – that has been a main theme that is beginning to pay off, has paid off, and we will not led upon even though we're beginning to grow significantly led by our commercial business. So productivity is foundational.

now, growth is also a piece of the margin expansion equation. We've taken up rates on 777 and 73, you're going to begin to see the rate, which is on schedule and we have confidence in that schedule and 87 begin to increase, a couple of multiyears have been nailed down in our defense business, which also gives us opportunity to use volume to help drive margin expansion.

I also think, the other comment I'd make is that, we're entering in a year now where our R&D is being used more efficiently. And I think that will not stop this quarter. And so notwithstanding some development programs out ahead of us, I think you may see more efficient use of research and development costs over the next period of time. So that would be my answer there.

Howard A. Rubel – Jefferies & Company

Thank you very much.

W. James McNerney, Jr.

You're welcome, Howard.

Operator

Thank you. Our next question will come from Sam Pearlstein with Wells Fargo. Please go ahead.

Samuel J. Pearlstein – Wells Fargo Securities

Good morning.

W. James McNerney, Jr.

Good morning, Sam.

Samuel J. Pearlstein – Wells Fargo Securities

I was wondering if I could follow-up on what you just mentioned, which was R&D, because you did come in relatively low in spending in R&D and given that year-over-year decline in commercial R&D, how do you get to the \$3.4 billion this year, is it driven by the potential launch of 777X and/or 787-10 to drive that pickup over the course of the year? How should we think about it?

W. James McNerney, Jr.

Yeah, I would think, the thought here would be and I would include the MAX in what you've just said there in terms of some ongoing development efforts. I think, look, I mean, if you step back for a second and look at this decade compared to the last one, we have the opportunity to harvest some hard-fought games in our Commercial Airplanes business. And we all remember the times of fighting through the 87 development where the technologies weren't quite as matures we hope they'd be at certain point in time, we had to spend a lot of money. The 47-8 cost us a little bit more than we assumed it would. And we spend a lot of money in research and development.

Now, this decade, this team is committed to harvesting some of the learning from that decade and also harvesting some of the technology maturation that was hard-fought and we now have in hand. So I think when you look at 777X, you look at a 10X or you look at a MAX, these are derivative programs that tend to leverage more efficiently what we know, there is not a lot of invention going on. There is a lot of creative application and use of a technological lead that we have and that leads to and I know this is a broader answer that maybe you are looking for, but that leads to confidence that more restrained levels of R&D can continue for longer periods of time.

Operator

Thank you. Our next question in queue will come from Robert Stallard with Royal Bank of Canada. Please go ahead.

Robert Stallard – Royal Bank of Canada

Good morning.

W. James McNerney, Jr.

Good morning

Gregory D. Smith

Good morning.

Robert Stallard – Royal Bank of Canada

Jim, you've highlighted that the demand environment remains very strong and then customers are looking to accelerate delivery. But given how many planes you now have in the backlog? What real capacity or flexibility do you have to further raise rates beyond what you currently committed to?

W. James McNerney, Jr.

Well, I think that there is – demand is strong. And in fact, to be honest, the first piece of 2012 surprised us a little bit, it is sort of above trend, I think it's between 5% and 6% on an industry level.

So demand on the passenger side looks strong. We do have confidence in the ongoing trend line sort of between 4% and 5%. But I think we have been ramping up production. There is more to go on the 737, I think we've given you visibility on that beyond the 38 that we just broke two. Could there be more beyond the 42? We'll have to wait and see, but there is strong demand for narrow-body airplanes in the world today. I think the – getting to 10 a month, as all of you have mentioned to me is not a free throw on the 87. We have strong confidence levels that we are going to get there on the timing that we've suggested to you. Is there demand beyond that? There are many I think there is, but we'll go through the disciplined process. So I think the middle of the wide-body, which would expand the 87 up to the 777, there's more room to run there, and we'll adjust our rates as we see it and narrow-body. So I don't think it's over yet.

Robert Stallard – Royal Bank of Canada

Great. Thanks very much.

W. James McNerney, Jr.

Yeah.

Operator

Thank you. Our next question in queue will come from Carter Copeland with Barclays. Please go ahead.

Carter Copeland – Barclays Capital, Inc.

Hi, good morning, guys, and good quarter.

Gregory D. Smith

Good morning, Carter.

W. James McNerney, Jr.

Thank you, Carter.

Carter Copeland – Barclays Capital, Inc.

Greg, I wondered if I could ask you to expand on a couple of accounting points since you know I can't help myself.

Gregory D. Smith

I understand.

Carter Copeland – Barclays Capital, Inc.

On the program versus unit, you guys were about \$900 million in the quarter, but there was only one 787 delivery. So I wondered if...

Gregory D. Smith

Yeah.

Carter Copeland – Barclays Capital, Inc.

First you could expand on that? And then secondly, on the deferred production per unit, it looks like you tick down pretty nicely there to around \$70 million a unit. I know you went through the 100 unit in the quarter, and you had said that there was a good step down in cost there. So I'm not sure if you can comment within those units if you saw even further progress from the beginning to the end, but any color you can provide, that would be helpful.

Gregory D. Smith

Yeah, sure. Well, on the unit versus program most of that is driven by 47, and then that one airplane on the 87 is our second delivery out of

Charleston, which as you know, we had as planned longer flow and learning applied to that airplane. But as I've said in the past, looking at it from a unit versus program it's going to become more challenging because of the mix of differentiation in the line-up of airplanes that were manufactured earlier coming out of BMC and airplanes coming off the line, now to add into that, you've got the -9.

So you're right, I would focus more now on the deferred production growth. And we are seeing improvements there on a unit basis, and I think that's a good representation of what you're seeing in the factories. Right now, we're looking at about a 60% on a unit basis from kind of the first airplane line 8 to about line 100. So we're just continuing to see good progress there. We're seeing that both at Charleston and in Everett, and when you kind of step back and look at kind of the key operational metrics that essentially are going to drive the financials we're seeing on the 87 right now, shortages are at record low, travel work coming in is essentially at zero. So it's really giving us the opportunity to stabilize the final production line and have it running as it was planned and I think we're starting to see the benefits of that.

We are also focused on product – on the overall productivity and support ratios, and you're seeing declines in employment around there as planned as we kind of increase our production. So overall, operationally, you're seeing improved results and that's translating into the growth in deferred production. But again, I would tell you from outside in, I'll tell you to continue to focus on the deferred production growth and our production rates around that.

Carter Copeland – Barclays Capital, Inc.

So the 60% was the total cost or the deferred production per plane?

Gregory D. Smith

Total cost.

Carter Copeland – Barclays Capital, Inc.

Okay, thank you.

Gregory D. Smith

You're welcome.

Operator

Thank you. Our next question in queue will come from Joe Nadol with JPMorgan. Please go ahead.

Joe Nadol – JPMorgan

Thanks, good morning.

W. James McNerney, Jr.

Good morning, Joe.

Joe Nadol – JPMorgan

You had a pretty strong result, I thought, in cash flow considering that you couldn't ship for most of the quarter on the 787, and you've – we've got some benefits in the advances category and I guess mitigated the inventory build a little more than I thought.

W. James McNerney, Jr.

Yeah.

Joe Nadol – JPMorgan

I just was wondering if you look forward, Greg, to the rest of the year, how you're feeling about that guidance? Is there upside there and whether items here, big items that are going to reverse or help us out with the profile there a little bit the rest of the year?

Gregory D. Smith

Yeah, I mean, look I'll tell you, first quarter was a combination of timing and improved performance. We certainly were very active in managing our cash in the first quarter and we're able to pull in some advances that were frankly timed in the early second quarter. But day-to-day very disciplined approach to cash management. I am feeling comfortable and feeling good about full year guidance and obviously the profile on cash from now going forward will really be hinged on the ramp up primarily around commercial airplane deliveries, in particular, on the 87.

Joe Nadol – JPMorgan

And you didn't dig into the share repurchase plan in the first quarter?

Gregory D. Smith

Right.

Joe Nadol – JPMorgan

Why exactly in the 787?

Gregory D. Smith

Well, just because of everything that was going on around the 787 and the battery, we refrained from doing any repurchase and as I mentioned we're going to get back in here on the second quarter, and we're still committed to the \$1.5 billion to \$2 billion for the full year.

Joe Nadol – JPMorgan

Okay, thank you.

Gregory D. Smith

Thanks, Joe.

Operator

Thank you. Our next question in queue will come from Doug Harned with Sanford Bernstein. Please go ahead.

Douglas S. Harned – Sanford Bernstein

Thanks, good morning.

W. James McNerney, Jr.

Hey, Doug

Gregory D. Smith

Good morning Doug

Douglas S. Harned – Sanford Bernstein

I wanted to follow-up on the 787 discussion from before and based on the deferred production numbers, it does look like your costs are coming down substantially. Could you comment on the trajectory going forward both in terms of, roughly, when you might expect to reach break even on a unit basis and then also what do you expect to happen when the -9 comes in? Should we expect, may perhaps a bump back up for a little while?

Gregory D. Smith

Yeah, I mean, we're certainly – we're planning on continuing to reduce the unit cost on the airplane going forward and we've got good productivity plans in place for ourselves within the supply chain and we're assuming that we execute to those. I think as the -9 certainly, if you look at it, as Carter was indicating on a unit versus program, you're going to see disruption there. But again, I think the deferred production growth is the best way to look at it. As far as the break even goes, as I said, we're going to peak at just over \$20 billion, once we hit \$10 billion and stabilize and that's when we'll turn the corner on a unit basis, but Doug, very focused on this. Obviously, every element of cost, whether it's in our factories or within the supply chain remains a big priority for us to continue to drive productivity on this airplane.

Douglas S. Harned – Sanford Bernstein

And if I can, when you say stabilizing at 10, when you look farther, given the uniqueness of this airplane, is there a timeframe when you're considering, and what timeframe would it be when you might consider even going higher in rate?

W. James McNerney, Jr.

Well, I think once we get to 10 and stabilize and feel good about where we are and all the operational metrics are in the – all within the right bandwidth, that's the timeframe when we'd be making a decision to, and obviously the capital, and whatever investments are required in the continued demand, will all be taken into consideration, when we – and if we decide to take the rate up.

Douglas S. Harned – Sanford Bernstein

Okay. Thank you.

Operator

Thank you very much. Our next question in queue will come from the line of Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak – Goldman Sachs & Co.

Hi. Good morning, everybody.

Gregory D. Smith

Good morning.

W. James McNerney, Jr.

Good morning, Noah.

Noah Poponak – Goldman Sachs & Co.

Just wanted to follow-up on 787 as well, can you maybe sort of, I don't know walk us through what your process was to get comfort that the implementation of the battery fix won't be disruptive to all of the positive comments you're making here on your metrics on cost and on deferred production. It seems like you have your arms around it, but it's obviously fairly unique. You've never done it before. you have to retrofit the active fleet, retrofit aircraft on the tarmac, put it into the manufacturing process, maybe a little bit more color on how you're comfortable with that not really changing things significantly?

W. James McNerney, Jr.

No, I think as [MoDs go] in the end with the fixed defined and the implementation in hand, this is not a big one, okay. This is two batteries and two locations on the airplane that the locations don't have to change much. There is some different interface to the electrical system, which is not rocket science, I guess, I would say, and there is the enclosure around the battery which fits into the spacing that already exists and then there is the exhaust system, which is designed, again, to easily retrofit. So this is days not weeks, it's a standardized fix that we've already implemented on a couple of our airplanes and a couple of our customers' airplanes already.

And so we have a pretty high confidence level that we can be through the majority of this in a few weeks, mid-May out in the field and into our production line and it's not a long pole in any tent, it's not a gating item on any [perk chart]. So the straight-forwardness of the fix itself, the fact that it doesn't represent a gating item in any other production or design gives us confidence that this won't disrupt anything other than the schedule that we've laid out.

Noah Poponak – Goldman Sachs & Co.

It's very helpful. Thanks a lot.

W. James McNerney, Jr.

You are very welcome.

Operator

Thank you. Our next question in queue will come from the line of Cai Von Rumohr with Cowen & Co. Please go ahead.

Cai Von Rumohr – Cowen & Co.

Yes, thank you very much. So Jim, you mentioned you're expecting to launch the -10 this year. What would it take to launch, because it doesn't look like you have a whole lot of delivery slot open at a rate of 10 a month. What do you need to see in terms of customers and do you also have to make a decision to go to 12 a month to be able to deliver it in a reasonable timeframe?

W. James McNerney, Jr.

Well, as usual, Cai, you are asking the right question. I mean, I think the – obviously the stability of 10, the supply chains' capacity to do the 10 with possible higher rates if that's what the marketplace supports are the key questions. The cost of doing this airplane and the technical risk of doing it is not high. There would be some capital involved probably, but I think we are feeling very good about all of those issues, okay.

And so, we just want to get through what we're getting through right now. We want to feel good about the production environment that we feel increasingly confident in and when that all comes together and I would anticipate sooner rather than later, we're going to be making a call here.

Cai Von Rumohr – Cowen & Co.

Okay. And so I mean I assume, what's the earliest you could deliver it?

W. James McNerney, Jr.

Well, we'd have to source through that, because if it did require taking up right, that would add a little more time into it. But it's again we'd have to define that. And we're working through that right now. I would say the one thing that we don't lack for with the -10 is demand. Customers want this airplane. And so we're being pushed to get this airplane out. This is more us being disciplined about feeling comfortable with the business case and about the stability as a manufacturing environment overall before we add something else to it; sooner rather than later.

Cai Von Rumohr – Cowen & Co.

Thank you very much.

W. James McNerney, Jr.

Yeah.

Operator

Thank you. Our next question in queue will come from Robert Spingarn with Crédit Suisse. Please go ahead.

Robert Spingarn – Crédit Suisse

Good morning.

W. James McNerney, Jr.

Good morning.

Gregory D. Smith

Good morning.

Robert Spingarn – Crédit Suisse

Greg, I would like to stick with the 787 learning curve since it's just such a key component to your cash flow story, and I wanted to ask for clarification and then just a couple of more points on this. But when you're answering Carter's question, you mentioned 60%, I wanted to be clear on what you were talking about there? Are you talking about a 60% reduction from the first – from line number 8 in terms of cash cost?

Gregory D. Smith

Yeah, that's unit cost of line number 8 versus unit cost of line number 100.

Robert Spingarn – Crédit Suisse

Okay. So would that then imply something like \$160 million cost on 100 down from \$400 million on 8?

Gregory D. Smith

I haven't gotten into specific costs on the airplane for obvious reasons. But I would tell you from a unit cost perspective, we're continuing to come down the learning curve, and we expect to do that going forward. And again, as I mentioned, it's not just within our own factories, it's within our supply chain. I mean, just to give an example, I was out last week lead airplane, they've got metrics in place, hours per job, what it is today, what it is on the next airplane, what it needs to be next week, what it needs to be by the end of the year. So they are very aware of what they need to do to come down the learning curve. And again, I think as the production system stabilizes, you're starting to flush out the efficiencies and we're assuming they'd be able to do that as we continue to deliver more airplanes.

Robert Spingarn – Crédit Suisse

On that note, could I ask you if the future step downs or the future improvements in the learning curve because this was a very significant one of course in Q1, are these tied to step downs that are negotiated as the rates bump up, in other words, do we see another big move with 7 and then another big move with 10?

Gregory D. Smith

No.

Robert Spingarn – Crédit Suisse

And it's not tied to that?

Gregory D. Smith

No, I mean, I mean, internally I'd say, it's a pretty traditional learning curve with objectives to meet that curve and then within the supply chain, I think, as I've talked before, it's differed by supplier by supplier depending on what was negotiated. So in some cases, we do have step down pricing at a specific unit. On other cases, you have more of a, I'll say, kind of a traditional curve. But it differs supplier by supplier as we kind of work through discussion with them. So you won't see what I would say a traditional learning when you look at an overall basis you have on other programs. But, again, it's obviously a very big focus item for us, and the teams are very committed to continuing to look at efficiencies and again whether it's just a supply chain once any airplane program gets to rate and stabilizes, we've been able to prove that we've been able to flush out inefficiencies and come down the curve even further.

And frankly, I think the 737 is a great example of that where that airplane has been production a long time and there is still opportunities that we've been able to capture and efficiencies and we're going to continue that discipline on the 87. So a lot of work to do, good plans I think in place, but a very committed focus and team to continue down that curve on a unit-by-unit basis.

Robert Spingarn – Crédit Suisse

Right, just on 737 since you brought it up.

Gregory D. Smith

Yeah.

Robert Spingarn – Crédit Suisse

Jim talked about bridging the two models with Ryanair order.

Gregory D. Smith

Yeah.

Robert Spingarn – Crédit Suisse

How should we think about pricing during that period of time and margins on the aircraft and then the mix of production, will you overlap or make something of a clean break between the two in that timeframe?

Gregory D. Smith

No, it will be gradual, it will – part of the production plan there is to, as you phase out NG, ramping up MAX at the same time so there is some capital that we've invested there to really do that seamlessly and have the MAX running down and we improved out on one line as the NG line continues to be at peak rate and then we'll make the full transition. So I think they've got a very good discipline, well thought out manufacturing plan, well in advance of going into final assembly obviously. as far as pricing is, I'd say, it's pretty much in line and it's playing out within our expectations. As I said before, certainly, when you have end of line or you have airplanes that are first launch customers and so on, there you see some more attractive pricing in that regard. but overall, I think it's coming in within our expectations.

Robert Spingarn – Crédit Suisse

Thank you.

Gregory D. Smith

And the team is doing a great job, executing rates, I mean record rate there with record low shortages, single-digit over time, and a very good plan in place to get the 42.

Robert Spingarn – Crédit Suisse

Thanks very much.

Gregory D. Smith

Okay.

Operator

Thank you. Our next question in queue will come from Jason Gursky with Citi. Please go ahead.

Jason M. Gursky – Citigroup Global Markets Inc.

Hey, good morning, everyone.

Gregory D. Smith

Good morning.

W. James McNerney, Jr.

Good morning, Jason.

Jason M. Gursky – Citigroup Global Markets Inc.

Congratulations on dealing with the battery issue, it's a very nice way I thought.

W. James McNerney, Jr.

Thank you.

Jason M. Gursky – Citigroup Global Markets Inc.

A quick clarification for Greg on the 787, you suggested that when it stabilizes, things will get a lot better, can you just clarify exactly how long it takes to stabilize the rate. And then Jim, can you talk a little bit about what's going on in services. Generally speaking, what your approach is to services going forward for as far as growth is concerned, and obviously, it seems some really nice margin performance in services, particularly on the military side here recently. Can you just offer a little bit of color as to generally what's going on in services, why the good perform and what the outlook looks like there?

W. James McNerney, Jr.

Yeah. I think on the – make sure I answer your question on the unit costs. But as we peak and then that's when we'll start to become positive on a unit cost basis, again, it stabilized, and that's usually about a year, year and a half once we hit 10. and that's the plan right now. But based on everything else, you've heard me say today, we're continuing to try to pull that to the left the best we can. But essentially, that's kind of a time frame that you'd be looking at on a unit basis.

Gregory D. Smith

And on your question on services, I mean I think overall, in both sides of our business we see it as a growth opportunity. I think if there was a theme – since we’re leveraging the largest installed base in aerospace in both our Defense and Commercial business, there is an asset that many other don’t have. And but on top of that footprint, I think there is a theme of injecting more technology and more IT into the services we’re adding.

And so I would say those two themes plus the theme of sort of packaged multiyear commitments, where we’re guaranteeing some performance with technology and the reason we can do that, again some known income stream does. And the reason we think we can do that more effectively than others is again, because we know the technology involved better than anyone else.

And so I think these multiyear deals, more IT, particularly on the logistics side and more technology for mods and modifications, I think that all spells a major growth opportunities. We just keep our feet underneath ourselves and make the right combo of acquisitions and internal investments. And it seems to be going well as you noted.

Jason M. Gursky – Citigroup Global Markets Inc.

That’s great. Thank you.

W. James McNerney, Jr.

Yeah.

Gregory D. Smith

Operator, we have time for one more question.

Operator

Thank you. And that question will come from Peter Arment with Sterne Agee. Please go ahead.

Peter Arment – Sterne Agee

Yeah, good morning, Jim and Greg.

W. James McNerney, Jr.

Good morning.

Gregory D. Smith

Good morning.

Peter Arment – Sterne Agee

Nice quarter. Jim, I guess talking about 787 going back to when days of Global Aeronautica used to be the long pole in the tent, it sounds like in South Carolina, things are progressing quite well. And you're also announcing a big investment there. I think earlier this month, you made an announcement about \$1 billion investment. Can you give us just some more color about what you're seeing down there in the opportunity and what kind of flexibility that's going to build in for you given all these projects you have got planned?

W. James McNerney, Jr.

Peter, we see South Carolina as exceeding expectations in terms of its performance to date. Greenfield operations in this industry are not easy and I give credit to the entire Boeing team plus the team in Everett that went out of their way to help make South Carolina a success story early on. So, all the metrics there are good in terms of production rates and efficiencies and cost and productivity. And as you pointed out, we are going to deepen our engagements down there.

I mean, we have – South Carolina has, and we have put together a deal that offers incentives to us, but asks us to perform against those incentives in terms of investments and new jobs over, I believe it's an 8-year period and we're excited about that because I think Boeing overall is stronger and can handle the growth that we see in front of us. We see tremendous growth in front of us for the next couple of decades and we're going to need a number of places from which we can draw talent and use capital, and so we're very pleased that South Carolina is moving along as well as it is.

Peter Arment – Sterne Agee

Okay. Thank you.

W. James McNerney, Jr.

Yeah.

Operator

Thank you and 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 question for Jim and Greg. If you have any questions after 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

Thank you, sir. And that first question will come from Al Scott with Reuters. Please go ahead.

Al Scott – Reuters

Hi, can you hear me?

W. James McNerney, Jr.

Yes, we can hear you. Go ahead.

Al Scott – Reuters

Okay, great just wanted to pick up the phone and not use my headset. I know you didn't reveal a number. But I know we're all interested and wondered if you could talk more about the cost of the 787 fix and how that will be handled in accounting. I understand it's amortized over an accounting block of 1100 planes, just a little more detail about that and what you think it cost Boeing overall, even though it's not hitting the income statement, that would be great.

W. James McNerney, Jr.

I'll ask Greg to answer that question for you, Al.

Al Scott – Reuters

Thanks

Gregory D. Smith

It was in – the majority of it wasn't reflected in our Q1 results and that was cost, period cost and particularly around R&D and around our route cause investigation, redesign and the testing of that and then also our estimated cost of incurring the repair for a customers' fleet going forward. So that's what was primarily reflected there. And as far as the cost basis you referred to in the 1100 units, there was a slight increase there for the additional retrofit on the undelivered airplanes throughout the balance of the cost base.

Al Scott – Reuters

Can you give numbers and R&D went down. So...

Gregory D. Smith

Well, we managed to absorb this. So it was – it was really a matter of priorities. I mean re-shifted our priorities and our people on to this effort from other efforts. And this is a one Boeing effort, so it was people from NVCA and BDS and our engineering and technology areas and so on, so....

Al Scott – Reuters

And the additional retrofit, how does that affect your accounting block?

Gregory D. Smith

Yeah, it's minimal within the accounting block.

Al Scott – Reuters

1,100 up to ...

Gregory D. Smith

1,100 units, it's amortized...

Al Scott – Reuters

Right

Gregory D. Smith

On a unit basis, it's over 1,100, but it's minimal.

Al Scott – Reuters

Okay. Thanks.

Gregory D. Smith

You're welcome,

Operator

Thank you. Our next question in queue will come from Jon Ostrower with the Wall Street Journal. Please go ahead.

Jon Ostrower – Wall Street Journal

Good morning, gentlemen.

W. James McNerney, Jr.

Good morning, Jon.

Jon Ostrower – Wall Street Journal

Question about the decision to the production profile for 777-X. You talked about different competing production locations. Can you kind of talk about the considerations there as you see it, and also the 787 learning curve looking at a 60% reduction from airplane 8 to airplane 100 with 92 airplanes of learning in that process. Can you talk about how that compares to 777, and just doing a rough calculations with numbers seems to indicate that it's actually higher than 85% learning curve there that would seem to indicate that it's actually cost is coming up as fast as it wasn't like 777. Can you kind of talk about those two factors?

W. James McNerney, Jr.

Jon, I'll give you the answer on 777, and then I'll let Greg handle the learning curve question. I think we have figured out by and large what airplane to build. We think we know and as you know as well because you know us well, the composite length modified fuselage new engines, okay. And so, the question there is, the question then becomes and we're sort of in the middle of assessment now, where to assemble it and where to build the major components and we're in the middle of that process. I mean, obviously, Everett is doing one heck of a job right now, building the current 777 model.

And so Everett obviously be an attractive place to consider for the assembly, for the next 777 model, the composite way. We have to think through as in the case of assembly where we do that, but we are sort of in the middle of that, and I think over the next few months we'll be in a position to talk more in a more granular way about what makes the more sense for our customers and for the company. Greg?

Gregory D. Smith

Yeah, with regards to the learning curve, yeah, you've seen a 60 per slope there from unit 8 to 100 if you compare that to 777, some of that obviously is just the upfront disruption. But over time, the learning curve assumptions will be very similar to what we've seen on the 777. So it's really just kind of the upfront units that really differentiate that curve.

Jon Ostrower – Wall Street Journal

How are you seeing the 787 curve now, is it – how is it kind of working with the first 100 airplanes, I mean obviously, there was a lot of disruption in terms of the reworking of all that.

W. James McNerney, Jr.

Right.

Jon Ostrower – Wall Street Journal

Are you seeing, as you kind of got stabilized from airplane 66 to 92, how is that curve looking as far as cost reduction goes?

W. James McNerney, Jr.

Yeah, I mean, I would say, we're coming down the curve as we had planned to whether it's in final assembly or within Charleston. So I think the teams are tracking well to the plan we put in place there. And certainly as we've eliminated any disruption and we are seeing components coming in with no open work. Again, it really allows the production system to operate as it was designed and stabilize and therefore be able to come down the curve further and we expected going forward throughout the block. So again, I think we are making good progress, lot of work in front of us, but the teams are focused and dedicated to it and we got to stay on it.

Jon Ostrower – Wall Street Journal

Thanks, guys.

W. James McNerney, Jr.

All right, thanks.

Operator

Thank you very much. Our next question in queue will come from Christopher Drew with The New York Times. Please go ahead.

Christopher Drew – The New York Times

Jim, could you step back a second and perhaps reflect a bit on why it's so hard to make a new plane these days, when I think more broadly of not just the 87, but the F-35, some of the Airbus planes, and whether at all those difficulties are now going to lead to this narrow, a little bit more caution here with the harvesting of the technologies rather than big new planes for quite a while.

W. James McNerney, Jr.

Well, I think, one thing I've learned in this industry is not to comment on another guy's airplane.

Christopher Drew – The New York Times

Okay.

W. James McNerney, Jr.

So, if you don't mind, I'll resist any Lockheed Martin or Airbus, I'm impressed enough with how hard it is to manage what I've got to manage. I would say though there's a theme here. The – if you look back in the 100 years that we've been in business, we go through areas where we get excited by new technologies, because of the performance it can bring to our customers, whether it's cloth to aluminum, whether it's sort of quilted aluminum to smooth aluminum. And then, there's – there are just technological shifts that have gone on and as you make the first bite of that apple, you tend to be on the bleeding edge for a while as you've heard me characterize, and I think that was the case with the 787. We should have been, that's not an excuse, we should have been more disciplined about the way we went about that.

And it has given us, and I think to your point, it now has given us a suite of technologies that we now can deploy now that they were matured in a bleeding edge fashion over the last 8 years. I think the next decade or two that allows us to mature these matured technologies into a number of applications. And each and everyone of the commercial applications that I talked about today whether it's the 737, 787 or the 777, new derivatives are all going to be step function improvements, much more than a normal derivative even though the cost and work will be roughly the same as new derivative, but the reason they'll provide, more benefit is because of all the investments and all the bleeding edge work we did over the last decade.

So I think we may be in an era where we can absorb somewhat less risk and still deliver a lot of performance. 30 years from now will there be some new technology that we'll all wrestle with, probably. Hopefully will there be enough people in Boeing that are here today that will remember the lessons learned from the 87, I hope so. I'm old. I'll be on a beach somewhere then. But anyway that's kind of the answer.

Christopher Drew – The New York Times

Okay, thank you.

W. James McNerney, Jr.

Yeah, of course.

Operator

Thank you. Our next question in queue will come from the line of Andrew Parker with Financial Times. Please go ahead.

Andrew Parker – Financial Times

Good afternoon, gentlemen. Can you hear me?

W. James McNerney, Jr.

Yes, yes, loud and clear. Good, can I just take you back to the 787 and the cost of the (inaudible)? Can you just spell out please, what you estimate the cost, the fix that you've got to prove along from the FAA, what that is going to cost? And also can you speak to airlines have been talking about compensation, can you give, for the disruption of those schedules et cetera, can you give any sort of sense on the quantum you expect in terms of compensation that you may have to pay?

Gregory D. Smith

Yeah, I'll start with the cost. As I mentioned earlier, the costs that were incurred in the first quarter were around the root cause investigation, the redesign and the testing of the components. and then an estimate of what we think it's going to cause to repair the balance of the customer's fleet. That was predominantly what was reflected in the first quarter. I'll let Jim talk about.

Andrew Parker – Financial Times

Forgive me for interrupting. Can you spell out what that cost is then that's gone through your Q1 earnings statement?

W. James McNerney, Jr.

We haven't talked specific on the numbers. but it's minor in comparison to the overall results. And again, we were able to absorb that by reallocating resources and expertise on to this. So again, what you saw in the results for Q1, we're able to absorb that and that's in those margins and at the same time, able to hold our full-year guidance based on that.

Andrew Parker – Financial Times

All right. And does – to your point of that as well as the testing of the fix, and so you said that it also reflects some of the cost of actually doing the work on the 50 planes that you've so far delivered.

Gregory D. Smith

Correct.

Andrew Parker – Financial Times

Does it include the cost of fixing all of those 50...

Gregory D. Smith

Yeah.

Andrew Parker – Financial Times

...or just some of them?

Gregory D. Smith

No, that includes our estimated cost of what we think it's going to take to do all 50 airplanes.

Andrew Parker – Financial Times

Right. and forgive me, can you give us a specific number then on this cost?

W. James McNerney, Jr.

No.

Andrew Parker – Financial Times

Right, it's okay. And to the point about compensation please?

W. James McNerney, Jr.

Yeah. I'll take that one Andrew. I mean I think, as you know, there are no contractual obligations there. But having said that, there are a few places where we'll work with our customers to ensure and there's a variety of ways we can work with them to ensure that the disruption doesn't hurt their results in there and their operation more than it needs to. And that'll be at a different way with every, every customer.

Andrew Parker – Financial Times

Right, and could I just follow-up with one final thing. Forgive me, because you may have addressed this earlier, but when do you expect the 787 program to reach break-even on a unit basis at least?

Gregory D. Smith

Yeah. it's when we reach, when we peak on our deferred production and basically, peak at rate in about a year, a year and a half from that time period is when on a unit basis, we will break the curve versus program accounting.

Andrew Parker – Financial Times

Sorry. The timeline on which on a unit basis your break-even is just in terms of when that is?

Gregory D. Smith

About two years from now.

Andrew Parker – Financial Times

About two years from now?

Gregory D. Smith

Right.

Andrew Parker – Financial Times

Okay. Right, thanks very much.

Gregory D. Smith

You're welcome.

W. James McNerney, Jr.

Yeah.

Operator

Thank you. Our next question in queue will come from Tom Black with Bloomberg. Please go ahead.

Thomas Black – Bloomberg News

Good morning. Thank you for talking my call.

W. James McNerney, Jr.

Yeah.

Thomas Black – Bloomberg News

Could you discuss a little bit about the give and takes on the 777X that is under discussion right now, the economics versus range, the new components versus compatibility?

W. James McNerney, Jr.

Well, I think this will be a derivative airplane, a significant derivative airplane. The two new key technologies will be a composite wing, which will be a fourth generation composite wing for us. So this is an example of a game changing technology that we now have good experience with and now have matured and the second will be new engines on the airplane. And our discussions with customers have said that the range and efficiency that this engine wing combination will produce is significant in their minds. And that there'll be a splitting of value between us and our customers that works for both of us, that's those are the discussions we're having right now. We have a lot of confidence that about the executability of this plane and the pricing we think, we can get that will benefit both us and our customers. So we're pretty far down that evaluation and we're excited about what we see.

Thomas Black – Bloomberg News

You talked about some step function improvements that came from the learning on the 787?

W. James McNerney, Jr.

Yes.

Thomas Black – Bloomberg News

Would that be applied similar to the 777?

W. James McNerney, Jr.

Yes, I mean...

Thomas Black – Bloomberg News

For example, you had more electrical components on there versus some of the bleed of the engines that you use them?

W. James McNerney, Jr.

Yes. I mean I think that the biggest of those things would be the wing, okay.

Thomas Black – Bloomberg News

Okay.

W. James McNerney, Jr.

Composite wings are incredibly efficient as compared to aluminum wings, not only in the way, not only in the aero dynamics, but in the weight on them. And that plus the engines are producing over 90% of the value of this airplane. let me just leave it that way.

Thomas Black – Bloomberg News

Okay.

W. James McNerney, Jr.

And the composite wing, the bigger of composite wing gets the more efficient it becomes and this is a big composite wing.

Thomas Black – Bloomberg News

Okay. And if I could just on the economic versus range some airlines want more range, others want more...

W. James McNerney, Jr.

Well, I think the market segment that this is going into in general, launches much range as they can get.

Thomas Black – Bloomberg News

Okay.

W. James McNerney, Jr.

And so we will have two models that have different capacities, so thick roots versus thinner roots. But range is something that within reason, they're going to pay for. And that's what the wing produces and that's what the new engines produce.

Thomas Black – Bloomberg News

Are there any numbers you can throw out there?

W. James McNerney, Jr.

No. We're not ready to announce the specifics on that yet. But it will be significant improvements in most metrics that you would associate with a new airplane.

Thomas Black – Bloomberg News

Thank you.

W. James McNerney, Jr.

You're welcome.

Operator

Thank you. Our next question in queue will come from Steve Wilhelm with Puget Sound. Please go ahead.

Steve Wilhelm – Puget Sound Business Journal

Thank you. and it's Puget Sound. I appreciate gentlemen.

W. James McNerney, Jr.

Thank you.

Steve Wilhelm – Puget Sound Business Journal

And just in terms of the 777, could you say a little more about the timing of the offer and also what that will mean in terms of the 747-I?

W. James McNerney, Jr.

I think first of all, we see those two airplanes addressing different market segments, and so I think and the 777 market segment is a bigger one than the 47-I. But we don't see the 777X introduction cannibalizing significantly the 47-8, which was the implication of your question. So I think we see two market segments there and I think the timing, the timing is up to the approval of the board of directors. But it wouldn't be a shock if this was settled before the end of the year.

Steve Wilhelm – Puget Sound Business Journal

Okay, thank you.

W. James McNerney, Jr.

Yeah, Steve.

Gregory D. Smith

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

Operator

Thank you, sir. And our final question will come from Josh Freed with the Associated Press. Please go ahead.

Josh Freed – Associated Press

Hi, there.

W. James McNerney, Jr.

Hi, Josh.

Josh Freed – Associated Press

One last question on the 787 cost; can you give any kind of ballpark parameter around the per unit cost of the fix for the ones that are out in the fleet, and obviously that number then won't include all of the work that went into developing the fix. But can you help us think about what it costs to actually install the thing on planes that are out there now?

Gregory D. Smith

Yeah, again I would say it was not significant. You saw it in the first quarter results. So the margins, just softer BCA absorb that and again, not significant. When you look at the overall program over a 1100 unit; very, very small because if you think about it, you had to put a battery on those airplanes, you're putting a different configuration here. So it's rather minimal on a unit-by-unit basis, if you look over the 1,100 units.

Josh Freed – Associated Press

All right and what's the current 787 inventory and what's it going to be in May when the deliveries restart?

Gregory D. Smith

Well, the 787 inventory is going to continue to grow as we build up for ramping up production. And then that will be offset by the increase in deliveries. So we expect it to grow. It's planned to grow as we increase again, as we increase rates. And some of that will be offset by the increase in deliveries. But this quarter, I think, total program was about \$28.8 billion.

Josh Freed – Associated Press

So I'm sorry. What I mean was how many airplanes do you have that have been built, but not delivered now and how many will you have in May when those deliveries then resume?

Gregory D. Smith

Well, we've got 25 airplanes that are on the ramp today that are completed out of final, five in Charleston, 20 in Everett that are essentially waiting for the battery to be swapped out. So those airplanes obviously, once we get through the retrofit, we'll get them in to our normal test flight schedule and customer delivery and they're all assumed in our delivery profile through the balance of the year.