**Operator**

Good day everyone, and welcome to The Boeing Company's First Quarter 2017 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analyst and media question-and-answer sessions 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 Jeffrey Lahr - The Boeing Co.**

Thank you and good morning. Welcome to Boeing's first quarter 2017 earnings call. I'm Troy Lahr, and with me today is Dennis Muilenburg, Boeing's Chairman, President and Chief Executive Officer and Greg Smith, Boeing's Chief Financial Officer. After management comments, we'll take your questions. In fairness to others on the call, we ask that you limit yourself to one question. We have provided detailed financial information in today's press release and you can follow the broadcast and presentation through our website at boeing.com.

Before we begin, I need to remind you that any projections and goals in our discussion today are likely to involve risk, which is detailed in our news release, various SEC filings and the forward-looking statement disclaimer in the presentation. In addition, we refer you to our earnings release and presentation for disclosures and reconciliation of non-GAAP measures that we use when discussing our results and outlook.

Now I'll turn the call over to Dennis Muilenburg.

**Dennis A. Muilenburg - The Boeing Co.**

Thank you, Troy, and good morning. My comments today will focus on our first quarter results, the ongoing health of our business environment and our growth plans going forward. After that, Greg will walk you through the details of our financial results and outlook.

Now let's move to slide 2. Boeing delivered first quarter 2017 financial results that included higher core earnings per share and strong operating cash flow. We also continued to execute a balanced cash deployment strategy of investing in innovation, growth and our people and returning cash to our shareholders.

In the first quarter, we generated $2.1 billion of operating cash, repurchased $2.5 billion of Boeing stock, and increased our dividend per share 30% for a payout of $868 million. Revenue in the first quarter was $21 billion on timing of commercial and defense deliveries and services. Core earnings per share of $2.01 were driven by a continued strong operating performance on production programs and services and a lower than expected tax rate.

Now let's look at the first quarter operating performance for both of our businesses. At Boeing Commercial Airplanes, we delivered 169 new jet liners and added 198 net new orders worth $15 billion. BCA generated solid results in the first quarter with revenue of $14.3 billion and operating margins of 8.5%. Key milestones in the quarter included the FAA certifying the 737 MAX 8 for commercial service and achieving first flight on the 787-10 one month earlier than the development schedule we established three years ago. And furthermore in April, we also achieved first flight on the 737 MAX 9.

Boeing Defense, Space & Security reported first quarter revenue of $6.5 billion. Operating margins were a healthy 11.3%, reflecting continued strong operating performance. Our defense and space business booked orders totaling $12 billion including a $3.4 billion contract from the U.S. Army for 268 AH-64 Apache helicopters. Also during the quarter, we booked a $2.2 billion contract for 17 P-8 Poseidon aircraft, and a $2.1 billion order for 15 additional KC-46 Tanker aircraft from the U.S. Air Force.

With approximately 1,600 flight hours completed, we continue to make steady progress towards completing Tanker development. The program did see additional cost growth to incorporate changes into the initial production aircraft and solidify production configuration stability. That said, we continue to close out technical risks and progress towards final certification as we remain focused on delivering the first 18 Tankers to the U.S. Air Force by early 2018.

In summary, thanks to a concerted team effort throughout the company, we delivered another quarter of solid operating performance, captured noteworthy additions to our large and diverse backlog, and returned significant cash to our shareholders.

With that, let's turn to the business environment on slide 3. Global demand for our market-leading products and services remains generally healthy across our key business segments. Specifically for the commercial airplane market, we still see solid airline profitability and strong passenger traffic that continues to outpace global GDP. According to the International Air Transport Association, the 8.8% year to date passenger traffic growth adjusted for the leap year is well above the long-term average of 5.5%. And with the recovery in global trade, we are now seeing modest improvements in cargo traffic.

These favorable industry trends, combined with our robust backlog of more than 5,700 aircraft, underpin our planned production rate increases over the remainder of this decade. In the narrowbody market, we are seeing strong demand as illustrated by the 167 net orders we captured in the first quarter. Our high confidence in increasing 737 production to 57 per month by 2019 is based on our existing backlog of more than 4,500 aircraft and a production skyline that is oversold through the end of the decade. Furthermore, the strength of this market segment has given us increased assurance for sustaining that production rate with market pressure to go even higher than 57 per month. It is also important to note that within our top 20 narrowbody customers, we continued to see a large capacity for additional orders when we compare existing order totals to their overall fleet size

In the widebody market, as we've noted before, we're seeing varying levels of near-term demand across aircraft models. However, over the next 20 years, we forecast the need for more than 9,000 widebody aircraft, underpinned by a meaningful upturn in replacement demand early in the next decade. Indicative of this overall long-term demand is the first quarter's announcement that Singapore Airlines intends to purchase 20 777-9s and an additional 19 787-10s.

777 production for 2017 is now sold out and for the current generation 777, our backlog at quarter end was 124 airplanes. Production continues at the seven per month rate before we lower it to the production rate in August to five per month as previously announced. That will result in 777 deliveries of approximately 3.5 per month in 2018 and 2019, as we transition production to the 777X. At that rate, we are about 90% sold out for both years including airplanes covered in the agreement with Iran Air, and we continue to have numerous campaigns underway.

While we clearly have more work to do to fill the remaining 777 production slots, based on the current sales environment, we believe the rate plan we've put in place establishes a production floor for the program. And we have a strong foundation of 340 777X orders and commitments that support our plan for ramping up production and delivery of the new 777X.

Our 787 Dreamliner program also stands on a strong foundation for long-term production with approximately 700 firm orders and commitments in our backlog. As you know, we have a concerted effort in place to secure additional 787 orders to support the 14 per month production rate plan for the end of the decade.

We will remain disciplined, as our team is, in the process of assessing our 787 production rate options and timing with a focus, as always, on ensuring supply and demand are kept in balance as we continue to grow profitability of the program. Importantly, our 2017 financial guidance bounds the range of outcomes from these scenarios, and we continue to see cash flows growing annually over the remainder of the decade, largely driven by higher 737 deliveries and improving 787 profitability.

Now turning to Defense, Space & Security, we continued to see solid demand for our major platforms and programs. The President's FY 2018 defense budget request calls for healthy growth in military spending. Additionally, we are seeing the potential for FY 2017 funding increases on numerous Boeing programs, including the Apache, the F-18 Super Hornet, P-8 Poseidon and the V-22 Osprey. International demand for our offerings remains high as well, in particular for rotorcraft, commercial derivatives, fighters, satellites, and services.

We have now cleared congressional notification regarding the foreign military sales of 48 Chinooks to Saudi Arabia, 37 Apaches to the UAE, and the government of Norway recently signed a foreign military sale agreement with the U.S. government for five P-8 Poseidon aircraft. International interest in our fighters also continues to be strong, with the Government of Canada releasing a letter of request for the sale of 18 F-18 Super Hornets. In addition, Kuwait and Qatar fighter sales are progressing.

We continue to invest in areas that are priorities for our customers, such as commercial derivatives, rotorcrafts, satellites, services, human space exploration, and autonomous systems. Much of that investment supports the priority we have placed on capturing future franchise programs, where we are leveraging capabilities and technologies across the enterprise for JSTARS recapitalization, Ground Based Strategic Deterrent, advanced weapons programs and other important opportunities, like the unmanned carrier-based MQ-25A and the T-X trainer.

Moving to services, we remain on track to begin operating our fully integrated Boeing Global Services business in the third quarter. We believe the 10 year $2.5 trillion services market is a major growth opportunity for us, and standing up Boeing Global Services will sharpen our focus on it and accelerate our capabilities expansion across all services and support areas, from our traditional parts, modification, and upgrade businesses to bolstering our suite of data analytics and information-based services.

Digital aviation services are a compelling and growing segment of offerings for us. For example, during the first quarter, we signed a contract with Etihad Airways for our Wind Update solution, which will increase airplane efficiencies and reduce fuel consumption. We now have 13 commercial customers subscribing to this service, covering a fleet of more than 1,000 airplanes.

On the defense services side, we were awarded a 10-year engineering services contract by the U.S. Air Force Materiel Command, and we captured a five-year F-15 performance-based logistics services contract with the Republic of Korea.

In summary, we continue to execute on our efforts to meet or exceed our commitments to our stakeholders while accelerating productivity improvements and making investments in innovation.

With that, I'll now turn it over to Greg for our financial results.

**Gregory D. Smith - The Boeing Co.**

Thanks, Dennis. Good morning everybody. Let's turn to slide 4, and we'll discuss our first quarter results. As expected, first quarter revenue decreased to $21 billion, reflecting the timing of deliveries, while core earnings per share increased 16% to $2.01, driven by solid operating performance and lower than expected tax rate, which more than offset the impact of lower volume and cost growth on our Tanker program.

Let's move to slide 5 and we'll discuss Commercial Airplanes. For the first quarter, our Commercial Airplane business reported revenue of $14.3 billion, reflecting timing of deliveries and 737 MAX production, where entry into service is expected to begin in May. Operating margins in the quarter were 8.5% due to improved performance on production programs, offset by the impact of lower volume, delivery mix, and again, additional Tanker program costs.

As Dennis indicated earlier, BCA captured $15 billion in net orders during the first quarter and backlog remained very strong, $417 billion, more than 5,700 aircraft, again equating to more than seven years of production. On the 787 program, the deferred production balance continues its downward trend, with a decrease of $316 million in the quarter. And again, over the long term, we continue to focus on improving 787 cash generation, driven by favorable delivery mix, internal productivity improvements, and additional supplier step-down pricing.

Let's now move to Defense, Space & Security results on slide 6. First quarter revenue at our Defense business was $6.5 billion and operating margins were a solid 11.3%, largely driven by strong performance at Boeing Military Aircraft and Global Services & Support business. Boeing Military Aircraft first quarter revenue declined to $2.6 billion, reflecting a planned wind-down of the C-17 program and timing and mix on in-production aircraft deliveries. Operating margins of 12.2% reflect solid overall performance.

Network & Space Systems reported revenue of $1.6 billion. Operating margins were 6.3%, driven by lower satellite service volume and investments in development efforts. Global Service & Support revenue was $2.3 billion, reflecting timing on contracts. And operating margins of 13.6% reflects solid execution across the portfolio. Defense, Space & Security reported a solid backlog of $63 billion, with 34% of that business from customers outside the United States.

Let's turn now to cash flow on slide 7. Operating cash flow of $2.1 billion for the first quarter was driven by solid operating performance and favorable timing of receipts and expenditures. With regards to capital deployment, as Dennis mentioned, we paid $868 million in dividends and repurchased 14.9 million shares for $2.5 billion in the first quarter. Our continued cash deployment efforts reflect our ongoing confidence in the long-term outlook for our business.

We continue to anticipate completing the remaining $11.5 billion repurchase authorization over approximately the next two years. And since 2012, we've increased our dividend per share by 190% and have repurchased 189 million shares. Again, returning cash to shareholders along with continued investment to support future growth, remains top priority for us.

Let's move now to cash and debt balances on slide 8. We ended the quarter with $9.2 billion of cash and marketable securities. This cash position continues to provide us flexibility to invest in our growth efforts and our people, while also returning cash to our shareholders.

Let's turn now to slide 9, and we'll discuss our outlook for 2017. We're increasing our 2017 core earnings per share guidance by $0.10 to now be between $9.20 and $9.40 per share, driven by lower than expected tax rate, partially offset by higher deferred compensation expense on the higher stock price. We are reaffirming our 2017 guidance for revenue, segment margins, deliveries, and cash flow. And again, the core operating engine continues to deliver strong operating results, and we remain focused on increasing production, driving productivity improvements, maximizing cash generation, and continued efficient deployment.

With that, I'll turn it back over to Dennis for some closing comments.

**Dennis A. Muilenburg - The Boeing Co.**

All right. Thanks, Greg. With a strong first quarter on which to build continued momentum for the year, our team remains focused on further driving both growth and productivity. Our priorities going forward are to leverage our unique One Boeing advantages, continue building strength on strength to deliver and improve on our commitments, and to stretch beyond those plans and sharpen, accelerate our pace of progress on key enterprise growth and productivity efforts.

Achieving these objectives will require a continuing clear and consistent focus on the profitable ramp-up in commercial airplane production, continuing to strengthen our defense and space business, delivering on our development programs, launching our integrated services business, driving world-class levels of productivity and performance throughout the enterprise to fund our investments in innovation and growth, and to develop and maintain the best team and talent in the industry, all of which position Boeing for continued market leadership, sustained top and bottom line growth, and to create increasing value for our customers, shareholders, employees and other stakeholders.

Now we'd be happy to take your questions.

**Question-and-Answer Session**

**Operator**

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

**Myles A. Walton - Deutsche Bank Securities, Inc.**

Thanks. Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning.

**Gregory D. Smith - The Boeing Co.**

Hey, Myles.

**Myles A. Walton - Deutsche Bank Securities, Inc.**

I was wondering if we could start on cash flow. Obviously a pretty strong cash flow, certainly relative to your breakeven expectations. And I know, Greg, you alluded to the timing of receipts, but if you could delve a little bit more. And it does look like you were both over-performing on operating cash flow and then also under-running on CapEx. And it looks like on the operating line it maybe was advances. So if you could just dig a little bit deeper on those points, that would be terrific.

**Gregory D. Smith - The Boeing Co.**

Yes, I would certainly point to execution, Myles, and just core performance as being the primary driver. We certainly had some timing in there. But I think a lot of the productivity improvements we've talked about and the initiatives, starting to see that hit some of the cash flow, as well as the disciplined efforts around working capital. And then of course, within that 787 improvements which you saw in the deferred, but even as you look at 787 cash flow as an individual item, it's positive and becoming more positive as we would expect with the improvements again in the step-down as well as the productivity in the factory and then the mix.

And playing into that mix is the early introduction of the Dash 10, which as you have seen, and that is going into the production system as planned and frankly on some cases a little bit better on the unit cost. So all of that really kind of playing in. But again, a little bit of timing. I'd certainly equate it to look, it's early, but there's certainly, we're off to a good start and we're seeing positive momentum, and we got some things to work through obviously through the balance of the year, but there's definitely some upward bias as we see it today.

But again, we'll keep you posted and work through the elements. We got to balance through each of the quarters here around finishing up on Tanker, getting MAX deliveries ramped up, and of course, selling some of the 47 white tails. Be we know what we need to focus on in order to do that, but we're off to a good start.

**Myles A. Walton - Deutsche Bank Securities, Inc.**

And the CapEx.

**Dennis A. Muilenburg - The Boeing Co.**

Yeah Miles, just building on Greg's comments there, what you see here is a, as he said, a good start to the year and I think consistent with our longer-term expectation for year over year cash growth. All of the elements that Greg talked about are foundational things that will drive year over year cash growth through the end of the decade, and we continue to see that as a strong focus, and the performance is bearing out.

**Myles A. Walton - Deutsche Bank Securities, Inc.**

All right. Thanks, guys.

**Dennis A. Muilenburg - The Boeing Co.**

Okay.

**Operator**

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

**Jason Gursky - Citigroup Global Markets, Inc.**

Yeah, good morning everyone.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning, Jason.

**Gregory D. Smith - The Boeing Co.**

Good morning, Jason.

**Jason Gursky - Citigroup Global Markets, Inc.**

Dennis, this one is for you. Good morning. I was wondering if you could spend a few minutes talking about the business cases that you're building around the 737-10 and the middle of the market aircraft. Perhaps just update us on customer feedback you're getting thus far and whether you're willing to go out on a limb there and maybe tell us which way you're leaning at this point on either one of those. Thanks.

**Dennis A. Muilenburg - The Boeing Co.**

Yes, Jason, let me just give you a quick update on that. We're continuing to have very productive conversations with our customers. Of course, the most near-term thing we're looking at is a extended version or a stretch version of the 737 MAX 9 which we're referring to as the MAX 10. We continue to work on closing that business case and working diligently with our customers. We see encouraging momentum there, but we still have work to do to finish up on the business case. And we have time to complete that work and then make the right decision.

So we're not yet to the decision point, but we are making progress and I'd say seeing encouraging feedback from our customer base. All of this, we're very confident, can be completed within the R&D profile that we've talked to you about before, so we don't see this as a big needle mover to our R&D profile over the rest of the decade. And we do see the MAX 10 as an airplane that we could have into the market in that 2020 timeframe.

Longer-term, the middle of the market airplane, we continue to have discussions with our customers on opportunities in that space as well, working on the business case and technology solutions. And again, we haven't arrived at a decision point yet. If we decide to move down that path, that's an airplane that would be entering into service in the 2024, 2025 timeframe. Again, we don't see that as a big needle mover on our R&D profile for the rest of this decade, and we have the time in place to again make the right deliberate decision on that. All of these potential next products feather in very nicely on our overall development plan cycle on the backside of 777X, and we have the capacity and strength to do one or the other or both of these if we so choose.

**Operator**

Our next question is from Doug Harned with Bernstein. Please go ahead.

**Douglas S. Harned - Sanford C. Bernstein & Co. LLC**

Yes. Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning.

**Gregory D. Smith - The Boeing Co.**

Hi, Doug.

**Douglas S. Harned - Sanford C. Bernstein & Co. LLC**

I'd like to understand two things related to the top line, and they're two things that seem to be kind of a flat outlook. One is the 787, and the other is defense. And on the 787, there's the things you said earlier made it sound as though when you look out further, you see more of a chance you would go up to 14 a month than any risk of falling from 12 a month. And I'd like to understand what could take you to 14 a month. And then on defense, you've also said in the past that you're looking at a pretty flat outlook over the next years, maybe low single digit growth. But you've had a lot of orders here recently. Has your view changed at all on that?

**Dennis A. Muilenburg - The Boeing Co.**

Yes, Doug, let me take a cut at both of those. And then, Greg, feel free to add in.

**Gregory D. Smith - The Boeing Co.**

Sure. Yes.

**Dennis A. Muilenburg - The Boeing Co.**

First of all, if you look at 787, Doug, as you've alluded to, our plan is still to go to 14 a month by the end of the decade, and we're actively working a number of campaigns to fill out that skyline. Most of the skyline work we're doing is out in the 2020 kind of timeframe. So just in our current backlog, as you know, we have nearly 700 aircraft, 787, in our firm backlog. At 12 per month rate we are in very, very solid position. So what we're really looking at is the step up to 14 a month, the timing associated with that, and then selling into that skyline.

We're looking at a range of scenarios between the current 12 a month and 14 a month and the specific timing around that. Our guidance for the year balance all of the possible scenarios we see. But to your underlying point there, we're not looking at scenarios that would drop us down from 12 a month. We're very strong at that foundational level, and this is all about the timing and sequencing of stepping up to 14 a month and selling into that skyline. And we're going to continue to work that hard regardless. We see 787 as a strong cash growth part of our portfolio, just the fundamental productivity work at the current 12 a month rate is a significant source of cash generation over the next couple of years. So that's how we see the 787 portfolio.

On the defense side, you're right, we're seeing some progress. We're seeing some, I'll say, re-energization around the defense budget. We're encouraged by some of the signs on building the defense portfolio and strengthening the defense budget in the U.S. for the future. We've seen heightened interest in a number of our product lines spanning rotorcraft, fighters, our services product lines, satellites, and that spans over into the international arena as well. And so while we haven't modified our forecast or our guidance going forward in terms of growth rate, we still see defense as a low to moderate top line growth opportunity. I would say generally there's an upward bias on how we see the strength of the defense business going forward. And that's backed up by what we see in a strengthening U.S. defense budget.

**Douglas S. Harned - Sanford C. Bernstein & Co. LLC**

Okay. Thank you.

**Operator**

Next we'll go to Sam Pearlstein with Wells Fargo. Please go ahead.

**Samuel J. Pearlstein - Wells Fargo Securities LLC**

Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning, Sam.

**Gregory D. Smith - The Boeing Co.**

Hey, Sam.

**Samuel J. Pearlstein - Wells Fargo Securities LLC**

I was wondering if you could address the BCA margin a little bit more. Just looking at the 8.5% margin in the first quarter, it looks like it's going to be relatively steep to move up to the 9.5% to 10% for the rest of the year. And one of the things you called out was some Tanker pressure. And it's still early in the process in terms of building Tanker, so I'm wondering is that going to continue without a further charge? Just address the Tanker specifically but then BCA margin in total.

**Gregory D. Smith - The Boeing Co.**

Yes. No, within the quarter at BCA, it was roughly about $120 million of pressure, and I think Dennis described kind of what we're working through on the Tanker which is really those in-production airplanes and getting those to the point of final certification and then getting ready for delivery. That's where we had the additional cost pressure within the quarter. And then we had about $20 million on the BDS side. But that's the real, I'll say, unusual item in the quarter for BCA. So if you strip that out, I think you'll see through the balance of the year continued improvement on the program margin side and then obviously we've got some work to do, which we know again what we need to do around the period expense and elements within whether it's fleet support or R&D through the balance of the year. So lots of moving pieces, but that's really the standout for the quarter.

**Samuel J. Pearlstein - Wells Fargo Securities LLC**

Right. But do you think of that as specific one-time item, or does that continue as you build more Tankers?

**Gregory D. Smith - The Boeing Co.**

No, that is readjusting the cost to complete the Tankers within the contract. That's our estimate to complete that, and that was impacted in the quarter.

**Samuel J. Pearlstein - Wells Fargo Securities LLC**

Thank you.

**Gregory D. Smith - The Boeing Co.**

You're welcome.

**Operator**

Our next question is from Carter Copeland with Barclays. Please go ahead.

**Carter Copeland - Barclays Capital, Inc.**

Good morning, guys.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning.

**Gregory D. Smith - The Boeing Co.**

Hey, Carter.

**Carter Copeland - Barclays Capital, Inc.**

Greg, just to keep on that topic, I wondered if you could tell us if there were any program margin revisions of significance. I think you said improved performance on production programs, so I wondered if you'd just clarify that. And with respect to the guidance for the BCA margin, given that $120 million, and you've called out the 787 block extension should that slip, does that present a risk to the low end of that guidance? Thanks.

**Gregory D. Smith - The Boeing Co.**

No. No. It's bounded in the guidance as Dennis described. So as we're running through those scenarios, we've taken that into consideration. So to your point, we've absorbed the Tanker, additional Tanker costs in the full year and on the low end provision for whatever, if we make a different decision than what we're working towards right now.

On the overall program margins for the quarter, we had slight improvement across the board, and on 737 had one block extension in there. So again, I think very good performance across all the production programs. And then again, I think raising, not only raising the bar as Dennis has talked about on our standards of performance, comparing ourselves externally in this whole global industrial champion. Again, we've got targets functionally by program, by element of cost and we're challenging ourselves on all aspects of that and certainly not all that is going to come home near term.

But an added kind of element to that is changing the compensation, and you probably saw that in the proxy where we're trying to provide even more clarity right down to all levels of management and all employees who are

50% of our comp now will be free cash, 25% on core EPS, 25% on revenue, and then of course the long-term reflecting the same plus the TSR element. And I would kind of put that all under the umbrella of this kind of standard of performance, clarity and understanding of what we need to do as a team year in and year out to drive value for our shareholders and at the same time reinvest back in the business. And so that's just another added element we brought in this year.

**Carter Copeland - Barclays Capital, Inc.**

That's great. So just to clarify, you had a positive revision across each of the single production programs in the quarter?

**Gregory D. Smith - The Boeing Co.**

Yes. Yes.

**Carter Copeland - Barclays Capital, Inc.**

Okay. Great. Thanks, guys.

**Gregory D. Smith - The Boeing Co.**

You're welcome.

**Operator**

Next we'll go to Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

**Ronald J. Epstein - Bank of America Merrill Lynch**

Yeah, hey. Good morning, guys.

**Gregory D. Smith - The Boeing Co.**

Hey, Ron.

**Dennis A. Muilenburg - The Boeing Co.**

Morning, Ron.

**Ronald J. Epstein - Bank of America Merrill Lynch**

Yes, I was wondering if you could talk to us a little bit more about the aftermarket strategy. You know, the long-term goal that you guys put out there was $50 billion. It's a big number, right, to get there from here. How do you think about getting there? Is it purely organic? Is there an inorganic piece to it? If you could just shed more light on that.

**Dennis A. Muilenburg - The Boeing Co.**

You bet. Hey, Ron. First of all, I think it's important to look at the fundamental marketplace that we're pursuing. We see the services market as a $2.5 trillion marketplace over the next 10 years. So there's plenty of market growth space for us today. Depending on sector, we have a roughly a 7% to 9% market share of that growing expanding market. So we have plenty of market headroom to play into and leverage our OEM depth and knowledge. And while $50 billion is a high-bar target, it is an aspirational target we set for our team but one that we're serious about pursuing. We see that as primarily an organic growth strategy, but it will be complemented with inorganic growth consistent with our broader strategy and approach. We still see organic investment as our number one growth engine.

Going forward, that includes additional work on our proprietary parts business and selectively rebuilding some vertical capabilities. As you've noted, we've selectively brought in some capability, things like building the all-composite wing for the 777X, the propulsion center that we stood up in Charleston where we're building new cells, the actuation capability that we have in both Portland and with the new stand-up in Sheffield, as examples of building targeted verticals that will further enhance our parts lifecycle business. We also see opportunities to grow modifications and upgrades. Again, leveraging our OEM depth of knowledge and doing that across Boeing. We see that combined integrated services business as one way for us to leverage infrastructure, talent and people so that we can compete in that marketplace.

And then thirdly, I see significant organic growth opportunity in the digital aviation services arena, information-based services, performance-based logistics. In my opening comments, I gave you an example on our wind solutions profile that now has more than a dozen commercial customers covering more than 1,000 aircraft on that subscription service. We have other services that we're offering, things like our Advanced Health Management service which now covers more than 2,200 aircraft across some 90 customers. Gold Care maintenance and engineering services as another example.

We see tremendous and compelling growth opportunities for us in that digital arena. And that is significant organic investment that we're making that's building on what is already a market-leading competitive position. Now all of that will be augmented with inorganic growth and selective acquisitions in those same spaces. And we've been deliberate about that, and we'll continue to selectively make acquisitions that complement our core organic strategy.

**Ronald J. Epstein - Bank of America Merrill Lynch**

Thank you.

**Dennis A. Muilenburg - The Boeing Co.**

That's a big focus for us, and one of the reasons we stood up the new services business, Ron, and we go fully operational with that here in the third quarter, and we will have a team, under Stan Deal's leadership, that is focused exclusively on growing the services business and supporting our customers.

**Ronald J. Epstein - Bank of America Merrill Lynch**

Got you. And on a potential middle of the market airplane, right, if something like that were to happen, is it reasonable to expect that you'd probably be more vertically integrated on that around some of the important subsystems, to get that aftermarket then on previous models of airplanes?

**Dennis A. Muilenburg - The Boeing Co.**

Ron, certainly the lifecycle value stream of that airplane, if we choose to launch it, will be an important parameter of the overall business case. So we're thinking hard about that. And again, you see that strategy already reflected in our next generation products. The 777X, for example, is more vertically integrated than its predecessors and that's a deliberate strategy going forward that allows us to provide more value to our customers and capture more of the lifecycle value.

**Ronald J. Epstein - Bank of America Merrill Lynch**

Okay. That's great. Thanks a lot, Dennis.

**Operator**

Our next question is from Rajeev Lalwani with Morgan Stanley. Please go ahead.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Good morning, gentlemen. Thanks for the time.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning.

**Gregory D. Smith - The Boeing Co.**

Hi, Rajeev.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Dennis, you had a great quarter in terms of book-to-bill, even before considering seasonality, at nearly 1.2 times or so. Do you think we're starting to see a turn here, or is it just timing? And then, what would a hypothetical MAX 10 do to that book-to-bill if it came out his year?

**Dennis A. Muilenburg - The Boeing Co.**

I think what you see here, Rajeev, is it's still fundamentally a very strong market, and especially when you take a look at the narrowbody marketplace. As I mentioned earlier, we are more than sold out against our production ramp-up to 57 a month through the end of the decade. And on top of that, we continue to see healthy order demand, 198 net orders in the first quarter, and a little more than 160 of those were in the narrowbody arena. So we see heavy demand. We think the MAX is well placed. And if we choose to proceed with the MAX 10, I think it only adds to the strength of our portfolio in the narrowbody marketplace.

The widebody marketplace, as you know, remains a bit more mixed, but still some fundamental strength there. Our focus there is on filling out the 777 bridge over the next couple of years, and as we talked earlier, filling out the skyline to 14 a month for the 787, and thinking through the timing of that. We still see the widebody market as fundamentally strong as well, and a big replacement cycle coming at the start of the next decade. And with the 787 and 777 families in particular, we are well positioned for that next wave of orders in widebodies. And don't forget, over the next 20 years, we still see a total need for more than 39,000 new airplanes around the globe.

And we're continuing to see strong passenger traffic growth in particular. It's only one quarter, but 8.8% passenger growth in the first quarter this year, again just speaks to the fundamental strength of the marketplace. And we're going to be very mindful about our rate ramp-up. We're going to do it profitably. We're going to keep supply and demand in balance. But with 5,700 aircraft in backlog, we have the opportunity to continue to grow cash delivery and earnings delivery over the long term. We're going to do that year over year while we continue to invest in the future and play this as a long term, sustained growth business, not a cyclical business.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Thank you, sir.

**Operator**

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

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

Yes. Thank you very much. So in the first quarter, the 787 deferred amortization increased by about $100 million sequentially. And I believe at one point you'd said on the fourth quarter that you expected it to be relatively flat in the first part of the year. And it did it on really a weaker mix, I guess, with the Dash 10 being introduced in the mix. Maybe give us some color on what should happen to the trend in that deferred if you do not increase the block size.

**Gregory D. Smith - The Boeing Co.**

Yes. I mean, Cai, we're expecting it to continue to improve. And again, it's really around those three fundamentals, and certainly productivity but mix. And bringing the Dash 10 in smoothly, as we have talked a lot about bringing the Dash 9 and how important that was, Dash 10 is very similar. And, just as an early indicator, we're on Unit 3 in the factory, or at least the data I have off Unit 3, and that's unit cost is in line with the Dash 9 already.

So I mean that kind of level of performance, and really going back into the overall strategy on commonality in that design and really leveraging that technology on derivative platforms is really, we're seeing that hitting the factory floor. So those are good early indicators of, again, a smooth transition which will ultimately help with the flow and the unit cost. So obviously, that's a key element, getting the mix improved.

And then of course the supplier step-down. So as we move into these next blocks, we've got supplier step-down, as well as that favorable mix and then the productivity. So all of that as we move through these blocks will continue to improve. So therefore, you'll see that in the overall deferred.

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

Thank you.

**Gregory D. Smith - The Boeing Co.**

You're welcome.

**Operator**

And we'll go to Howard Rubel with Jefferies. Please go ahead.

**Howard A. Rubel - Jefferies LLC**

Thank you very much.

**Gregory D. Smith - The Boeing Co.**

Hi, Howard.

**Howard A. Rubel - Jefferies LLC**

Dennis, your risk tolerance and mine are sometimes different. And as I look at sort of the variability we've seen in Tanker and at Network & Space Systems, I'd like for you for a moment to talk about how you're managing that risk. And there's two contexts. One is that if we back out the R&D and the cost related to the Tanker, and we look at Commercial margins, they're flattish or down a little bit. And yet you've got a lot of productivity in the factory, so where's that going? And then second, as you think about these, as you think about ongoing and new programs, T-X as one case and new opportunities in Space, how are you going to take some of the bumps out of the road?

**Dennis A. Muilenburg - The Boeing Co.**

Yes. Hey, Howard. First of all, on Tanker, while we did see cost growth in the quarter, as we noted, that cost growth is well bounded and it's clearly in the initial production aircraft as we get to product configuration stability. And while we're doing everything we can to drive that to closure, just getting to concurrent designs and consistency in the configuration across all the airplanes has taken us a little more time than we expected. I will say, it's very clear to us that the flight testing, with more than 1,600 hours, is going very well. The airplane is performing as expected. We have not discovered any new technical issues, and are clearly converging on technical risk closure and getting to the finish line. And so while none of us are happy with the cost growth, we're clearly converging on the program and expect to deliver those first 18 Tankers.

We're also making the investments for the future with the expectation that that will be a long-term profitable line for us. We know how to build that airplane. And the investments we're making now to get configuration stability in the production line will produce profitability for the long run. So I remain very confident in the Tanker program in terms of its long-term value. We still see a marketplace there that's 400 plus aircraft, and we have the right airplane for the customers.

Now, more broadly, we've taken some of those lessons from our Tanker program and other development programs and have rolled those into our development program excellence initiative that we've deployed on subsequent programs. And we are seeing good signs of progress there. I think you see it in the MAX program, for example, as that airplane is delivering a little ahead of schedule and a little under budget on a good, steady development program.

We're seeing similar great results coming out of the 787-10 and that airplane getting to flight test a month ahead of schedule. We're seeing similar progress on 777X and we're applying those same best practices to future programs like T-X as you mentioned and using some of our advanced prototyping to leverage that. So we're deploying those lessons learned, and we are committed to being able to deliver development programs consistently on schedule and on cost. It's one of my key focus areas at the corporate level.

**Howard A. Rubel - Jefferies LLC**

Okay. Thank you.

**Operator**

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

**Robert M. Spingarn - Credit Suisse**

Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning, Rob.

**Gregory D. Smith - The Boeing Co.**

Hey, Rob.

**Robert M. Spingarn - Credit Suisse**

Guys, I wanted to go back to this really the tail end to Ron's question about the supply chain and the lifecycle opportunity. And given your margin push to the mid teens and competitive aircraft pricing market and recent in-sourcing of certain components like wings at the composite wing center, which I guess is enabled by important increases in automation capability. I wanted to ask about the long-term prognosis for the Tier 1 suppliers. And maybe I'd ask it this way, if you look at your overall business, both commercial and defense combined, what's your current make versus buy ratio and how would we think about a target for that 10 years from now?

**Gregory D. Smith - The Boeing Co.**

Well, roughly at the total level, it's about 60% to 70% outsourced to inside. Maybe I'll give you my perspective, and then certainly Dennis will have one. But I mean, as far as the Tier 1s go, I think it just goes back to the market. As we look at the 39,000 airplanes that are out there and if we can continue to compete to win as a team, then I think everybody benefits as a result of that. So I think there's plenty of work out there, but we just got to stay focused on improving the overall performance and cost elements across the board and put ourselves in a position to win every time. And if we win every time, then Tier 1, 2, 3, everybody wins as a result of that. But just staying aligned and understanding where we have inefficiencies and how do we work as a team to really overcome those is going to be the continued focus.

**Robert M. Spingarn - Credit Suisse**

Greg.

**Dennis A. Muilenburg - The Boeing Co.**

And, Rob, those are the fundamentals behind our Partnering for Success program and how we're working with the supply chain more broadly. So we are thinking through future supply chain architecture. We're engaging at the Boeing enterprise level, not at the single program level. I think that makes us more efficient as a company, better for our supply chain as well. And that's going to allow us to drive productivity and cost effectiveness both inside our four walls as well as inside our supply chain.

Where we need to, we will build selective vertical capability so that we can further drive cost down and value up for our customers. And in some cases, we may decide to create additional new sources of competition if we need to. So we are very focused about winning in the marketplace, and we'd like to do that in partnership with our supply chain and that's the whole design behind our Partnering for Success initiative. As Greg said, there is plenty of market growth opportunity for us to all be successful and as long as we stay aligned on objective we can do that.

**Robert M. Spingarn - Credit Suisse**

So, Dennis, understanding that, it's clear that not everybody on the supply side buys into or is able to agree to a Partnering for Success construct. So is it still fair to say that over time the make percentage will rise even though the overall – I understand Greg's point. The pie is going to get bigger so everybody can benefit, but it sounds like the portion that Boeing will do in-house will rise.

**Dennis A. Muilenburg - The Boeing Co.**

That will be determined over the longer run, Rob. We certainly have the capacity to do that and we'll make selective decisions around that equation. Our decision on the 777X to build the wing in-house is a focused strategic decision. I announced earlier some of the other vertical capabilities that we're investing in. We think those are places where we can add new value. So there will be some places where that work will shift to an internal make. There may be some other places where we might decide to go outside and buy. So there will be puts and takes all aligned with the strategy of being a global industrial champion and having a supply chain for the future. So that outcome is not predetermined, but it is an outcome that's based on partnership with our supply chain and both Boeing and our supply chain making the right investments for the future and committing to being cost competitive for the future.

**Robert M. Spingarn - Credit Suisse**

Okay. Thank you, both.

**Dennis A. Muilenburg - The Boeing Co.**

You're welcome.

**Operator**

And our next question is from George Shapiro with Shapiro research. Please go ahead.

**George D. Shapiro - Shapiro Research LLC**

Yes. A couple of questions. Greg, how did period expenses and fleet support costs in the quarter compare to last year? And also could you explain why the unit profit was so much lower than the program this quarter despite having a $300 million benefit to deferred?

**Gregory D. Smith - The Boeing Co.**

Yes, yes. No problem, George. Yes, the difference there, and we delivered two of the early builds on the 87, and so that certainly impacted the program versus unit. And then the other element in there is we've got some end of line NGs that are also impacting the quarter. Going back to the early builds just for a second, we've got three left. They're sold, and we got three left to deliver and we'll be done with those by the end of the year. So we're getting to the end game on those. But that's really what was the moving pieces primarily in the quarter.

As far as, there is some puts and takes, frankly, George, around the period expense. I mean, we had a little bit better performance around the R&D, and it really was performance in that. And then we had some movement around in particular in fleet support. But other than that, I'd say, team is again, they're not leaving any rock unturned in looking for opportunities to drive more efficiency, and you saw some of that in the quarter.

**George D. Shapiro - Shapiro Research LLC**

So was the fleet support in the period a little higher than last year, I mean, or no?

**Gregory D. Smith - The Boeing Co.**

No. No.

**Dennis A. Muilenburg - The Boeing Co.**

About the same.

**George D. Shapiro - Shapiro Research LLC**

Okay.

**Gregory D. Smith - The Boeing Co.**

Yes. Yes. But a little bit better than what we expected or what we originally planned.

**George D. Shapiro - Shapiro Research LLC**

And the program margin on the 787, you'd mentioned that the increased margins across the board. You took some middle of the road position based on whether you go to 14 a month or 12?

**Gregory D. Smith - The Boeing Co.**

On the guide. So if you look at the low end of the margin guide at BCA, we're trying to take that into consideration as a hold or delay in a 14 a month, so holding at 12. And so that's what's considered on that low end of the guide.

**George D. Shapiro - Shapiro Research LLC**

Okay. Thanks very much.

**Gregory D. Smith - The Boeing Co.**

You're very welcome.

**Operator**

Our next question is from Hunter Keay with Wolfe Research. Please go ahead.

**Hunter K. Keay - Wolfe Research LLC**

Hey, thanks. Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning.

**Gregory D. Smith - The Boeing Co.**

Hey, Hunter.

**Hunter K. Keay - Wolfe Research LLC**

Hi. So we've seen some deferrals from some major customers on the 37 side. United, Lion Air, just to name a couple. I'm sure you're fully bridged on the MAX but obviously you were almost there anyway. But as you think about the broader transition over the next couple years, are some of your more risky delivery positions still double booked or have you kind of used up a little bit of that buffer?

**Dennis A. Muilenburg - The Boeing Co.**

Yeah hey, Hunter, we feel very confident in our delivery profile on the 37 line and ramp-up of the MAX. As you know, we're stepping up to 47 a month and to 52 and 57, and we are oversold against that profile. And it's not unusual for us to have some shifts in our customers, in some cases deferrals and in some cases accelerations, but across the whole profile every year, we're oversold against that profile. So we're very confident in the MAX ramp-up and our ability to ramp up the 737 line overall. MAX will represent about 15% to 20% of the deliveries from that line this year. And flight test is going well, and we'll begin delivering the MAX here in May. So we remain very confident.

**Hunter K. Keay - Wolfe Research LLC**

Okay. Thanks, Dennis.

**Troy Jeffrey Lahr - The Boeing Co.**

Operator, we have time for one more analyst question.

**Operator**

And we'll go to Peter Arment with Baird. Please go ahead.

**Peter J. Arment - Robert W. Baird & Co., Inc.**

Yes. Good morning, Dennis, Greg.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning, Peter.

**Gregory D. Smith - The Boeing Co.**

Good morning.

**Peter J. Arment - Robert W. Baird & Co., Inc.**

Hey. Dennis, just talking back on BDS, you mentioned some kind of upward bias on a couple of your key programs. Is there a way to kind of look at it as 2017 should be kind of the trough and kind of the top line on how you're thinking about it? Or maybe give us just kind of a longer-term projection, how you're looking at the BDS growth profile.

**Dennis A. Muilenburg - The Boeing Co.**

Yes. Generally, Peter, as we look at it, we're seeing a flat to moderately up top line on the defense business over the next five years. Some of this is dependent on where we end up on the U.S. defense budget. As you know, we're still under sequestration. It's the law of the land, and we're hopeful and there's some signs that alternatives to sequestration are going to come through as the new baseline. But until that happens, it's hard to say exactly what that future profile will look like. I will say what we're hearing from our customers and what we're seeing from the new administration and from the Hill are encouraging signs in terms of adding robustness to the defense budget and selectively growing. You see some of that reflected in funding for our programs in particular.

So not only within the defense market writ large where we're seeing some strength, but I'll say additional strength within some of our specific programs like the P-8, like the V-22, the Apache and our fighter lines. And we see reemerging interest in the F-18 Super Hornet as well as the Growler variant domestically and internationally. So we have clear opportunities. I think we have the right products for our customers in terms of capability and value, and we're in the marketplace to compete, and we have opportunities especially if the U.S. defense budget continues to strengthen. But I will put that caveat on it. We need to see a long-term stable strong defense budget in the U.S.

**Peter J. Arment - Robert W. Baird & Co., Inc.**

Got it. Thanks, Dennis.

**Operator**

Ladies and gentlemen, that completes the analyst question-and-answer session. I'll 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 - The Boeing Co.**

Thank you. We will continue with the questions for Dennis and Greg now. If you have any questions following this part of the session, please use our media relations team number at 312-544-2002. Operator, we're ready for the first question. And in the interest of time, we ask that you limit everyone to just one question, please.

**Operator**

And first we'll go to Julie Johnsson with Bloomberg. Please go ahead.

**Julie Johnsson - Bloomberg LP**

Hi. Good morning.

**Gregory D. Smith - The Boeing Co.**

Good morning.

**Dennis A. Muilenburg - The Boeing Co.**

Good morning, Julie.

**Julie Johnsson - Bloomberg LP**

Dennis, could you just walk us through your thinking on workforce and how best to size the company to its businesses and growth prospects? Looking back since the end of 2012, think overall head count has fallen by about 27,000 people. And for some people, especially in the Puget Sound region, this is sort of almost feeling like a mass layoff playing out in slow motion. At what point are the cuts deep enough?

**Dennis A. Muilenburg - The Boeing Co.**

Yeah, Julie, let me give you a little perspective on that. And I think the data you have seen over the last few years reflects the fact that we work in a very competitive marketplace, and we've talked about the need for global competitiveness and government policies that enable competitiveness. That's why we've been pushing hard on things like EXIM Bank reauthorization, trade policy, tax reform policy, all things that will allow us to be more competitive.

We are having to deal with a lot of competitive realities in the marketplace, and we've also committed as a company that while we compete today, we need to invest for the future. And some of the tough affordability actions we've had to take have been necessary so we can continue to fuel our R&D and our innovation machine for the future. So those are kind of the framing statements and strategies around our workforce.

Now while we have had workforce reductions over the last few years, we're also very mindful about doing that in a way that's respectful to our team and continues to invest in talent for the future. So we've largely been able to leverage voluntary layoffs and take advantage of natural attrition rather than massive steps. So I think that diligent incremental approach is the right way to do it. It's respectful of our team and it's a way that allows us to continue to invest in the future.

And while we've had overall reductions, if you look at the total numbers, I think it's also worth reminding everyone that just over the last couple of years, we've hired more than 11,000 new employees. And so while we've had net reductions overall, we continue to fill the front end of our talent pipeline, bring the best talent into the company, engage at the high school and collegiate levels, our intern programs, to make sure we're making the right talent investments for the future. So this is a challenging equation for us, but we take it very seriously about investing in talent and treating our people with respect while we drive competitiveness and fuel our future innovation.

**Operator**

Our next question is from Doug Cameron with The Wall Street Journal. Please go ahead.

**Doug Cameron - The Wall Street Journal, Inc.**

Morning. I can't sound quite as chirpy as Julie, but I will do my best. I don't remember the last time anyone asked a space question on the call, Dennis.

**Dennis A. Muilenburg - The Boeing Co.**

Yes.

**Doug Cameron - The Wall Street Journal, Inc.**

So let's do that for a change. There were reports in the media last week that Apple was a potential co-investor in your small sats program. Can you comment on that? And just given all the chatter and noise about the Space business over the past two years, be it speculation about Aerojet coming – and maybe just at a very high level where you could, one, address potential Apple investment, and secondly, at a high level, just how you see the Space business developing.

**Dennis A. Muilenburg - The Boeing Co.**

Yes. Well hey, Doug, let me take a cut at that. And I'm not going to comment on any specific partnerships or engagements we have. We are engaged with many, many industry partners across the Space spectrum. So, rather than comment on that, let me give you just a little bit of framing on where we're headed. We do see the Space business broadly as a long-term growth business for us. That includes the Satellite business, both the satellite product lines and the services. And that plays into both the commercial and the defense or military marketplace.

We've made investments in that area, like our 702MP midsize bus, our SP small bus, as well as new microsatellites. We're now the only company in the world that has all electric propulsion satellites on orbit serving commercial customers, and we still see significant demand for commercial communications bandwidth. And that's part of what's driving the future marketplace. And you've seen interest in that commercial bandwidth from a lot of parties. You mentioned Apple, but there are many others who are interested in commercial bandwidth for the future. You've probably noted our recent license filings for spectrum in that arena, again, for the opportunity to service a number of customer opportunities downstream. So we're going to continue to selectively invest in our Satellites business as a growth area.

We also see human space exploration as an opportunity for the long term, programs like the space launch system for NASA, our work on commercial crew, and continuing to make the right investments, partnerships in the launch marketplace, including our ULA joint venture. All of those are important components for the future.

So hopefully that gives you a sense strategically. We see Space as a priority. We see it as a business growth area. That business thrives on industrial partnerships, and we're doing that across large and small companies. And we also see that as a great area to attract future talent. It inspires innovation, and it's a great way for us to draw talent into our company.

**Operator**

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

**Alwyn Scott - Thomson Reuters Corp.**

Hi to both. Thank you. Two-prong question on tax reform. First, I wonder if Boeing is still pressing for border adjustment tax, given the outline that we saw today from the administration. And second, would a cut in the corporate tax rate and incentives to repatriate overseas cash make any difference to Boeing's plans for investment in the United States?

**Gregory D. Smith - The Boeing Co.**

The answer to your second question is no, because we don't have any cash offshore, other than cash that supports our operations. So we're not in a situation where repatriation is an issue or a priority. Broader speaking, we're a supporter of tax reform. And simplifying the tax code, as well as getting the rate to a point of being able to compete on a global scale, is certainly something that we support.

And again, we're looking for efficiency in the tax system as well as the rate. And we're working with the administration and those that have, I'll say, the same priorities in mind, to help the administration think this through and implement it in a smooth fashion. But at the highest level, we're a big supporter of tax reform. It's going to drive jobs. It's going to drive the U.S. economy, broadly speaking. And it's going to allow us to compete in any, whether – doesn't matter what industry you're in. If you're a global company, it's going to allow you to compete on a global platform. And so we're supportive of that.

**Operator**

Next question is from Dominic Gates with The Seattle Times. Please go ahead.

**Dominic Gates - The Seattle Times Co.**

Hi. Good morning.

**Gregory D. Smith - The Boeing Co.**

Hey, Dominic.

**Dominic Gates - The Seattle Times Co.**

Following up on Julie's employment question, one of the real worries here in the Puget Sound area is of course the 777 rate (63:36). We already have these baked in reductions that are coming to there. And a lot of hope that that will change rests on the introduction of the 777X, and yet you've talked about an upturn in the widebody market happening in the early part of the next decade. And that to me brings up the question, how soon after 777X starts do you actually bring these rates up to what they were? You're going to be going down to delivering 3.5 a month in 2018, 2019. 777X will start delivering in 2020. But how many years is it going to take before you're at seven a month? And what is the impact of that gap on employ – what is the likely impact here on the Puget Sound of that gap? Can you speak about that?

**Dennis A. Muilenburg - The Boeing Co.**

Yes. Dominic, let me frame that up for you. As you know, we're currently at seven a month, and we've already announced the plan to go to five a month in the third quarter of this year. And in fact, we're already feathering in that into the production plan and into the factory space. As we look at filling the 777 bridge over the next couple of years, and I'm talking 2018, 2019, and a little into 2020, and then building on the 777X order book that we already have in place with a firm backlog of 340 aircraft, we see that five a month as a floor through the bridge and through the transition.

We'll begin introducing the 777X into final assembly in the factory in 2018. So, mindful of the fact that it goes into service in 2020, but it starts to hit the factory space in 2018. So it's important that all of the lead turns on that in terms of supply chain, factory ramp-up, and the people to do the job are all in place. So, when we step to the five a month later this year, again, that's the floor that we see in the factory in terms of the production line, and then we'll transition from 777 to 777X over the next two to three years, and then be up to full rate as we get into the new decade.

Now, where we take that rate in the new decade will be dependent again on how well we do in that marketplace. As I said, we see a demand for more than 9,000 widebody aircraft as we get into that big replacement cycle at the start of the next decade. We think we have the right product lineup with 787s and the 777X, so we're well positioned to take advantage of that marketplace and we have lead time in place to tailor our production rate as we get into the new decade, depending on how well we compete and win in the marketplace.

**Operator**

Our next question is from Patti Waldmeir with The Financial Times. Please go ahead.

**Patti Waldmeir - The Financial Times Ltd.**

Thanks very much. This is a question for Mr. Muilenburg. The congressional Republican leadership just held a press conference today in which they said that one of the biggest achievements, if not the biggest achievement, of the first 100 days of President Trump is deregulation. Are there any significant ways in which deregulation has affected Boeing in the first 100 days?

**Dennis A. Muilenburg - The Boeing Co.**

Yes. Just to comment on that, one, the overall focus on deregulation and simplifying processes is one that we've been a strong proponent for. And the administration has been very engaged across government agencies and with industry to find ideas and ways and opportunities to simplify and streamline. Things like FAA certification processes is one place that we're seeing some solid progress. That's helping us more efficiently work through certification on some of our new model aircraft such as the MAX as it's going through flight test and entering into service. So we're already seeing some benefits there of some of the work that's being done with the FAA.

In the defense department, we're seeing streamlining of regulations and contractual structures, things like improving the cycle time on foreign military sales as an example, which is an enabler for us on helicopters and fighters. We're seeing progress on things like multiyear procurement programs and performance-based logistics. I mentioned some examples of that earlier. So these are things that are clearly working to our benefit broadly as an industry.

I think it's also worth pointing out the progress on EXIM Bank reauthorization. To me that's a very big step. It has a regulatory element as well as a trade element to it. But for some time, we have not had the EXIM Bank fully operating, even though it had been reauthorized by super-majorities on both sides of the Hill. The fact that we didn't have a board quorum has left the bank unable to execute at full volume. And with the recent nomination of two board members, we're hopeful that soon we'll see a fully operational board and fully operational EXIM Bank, and not only to the benefit of Boeing but to our 13,000-plus companies that are in our U.S.-based supply chain and other industries. EXIM Bank is a big enabler for jobs growth across big and small companies. So those are a few concrete examples. We're encouraged by the progress, encouraged by the conversations, and look forward to a continued focus in this area.

**Operator**

Our next question is from Jon Ostrower with CNN. Please go ahead.

**Jon Ostrower - CNN**

Good morning, guys.

**Gregory D. Smith - The Boeing Co.**

Hi, John.

**Dennis A. Muilenburg - The Boeing Co.**

Hi.

**Jon Ostrower - CNN**

Hey. Dennis, can you drill down on your thinking on the NMA business case? Customers, particularly on the leasing side, have asked for an airplane with a cost that's effectively coming in somewhere below $70 million to $75 million. When you look at the combination of manufacturing, flying technology and the aftermarket, what's the weight you're assigning to each of those levers when you're looking at the business model and getting that price tag down? Have you figured out yet how to make a profit on selling a sub $75 million 797? And kind of in that same vein, when you look back on the inception of the 87 business model, what kind of leadership controls have you put in place at the CEO level to ensure you're getting a realistic business plan that looks like it does 15 years after you get started?

**Dennis A. Muilenburg - The Boeing Co.**

Hey, John, first of all, it's important that we start with the customer here. So our primary focus right now is engaging with our customers and understanding their future needs. We are looking at different potential price points in the marketplace, different capacities, range, seat capacity, a whole range of options for our customers. So we haven't finalized that, nor have we finalized a price point for the airplane.

Now regardless of where we end up there and whether we decide to launch, in parallel we're doing our due diligence on business case opportunities. That gets into reducing development cost. This is all the work we're doing on step-function reduction in development cost and the development program excellence initiative I mentioned earlier. It gets into production cost reduction, leveraging the work that we're doing on all of our product lines today. Selective automation in our factory spaces is an example, all the work we're doing on second-century design and manufacturing. It also gets into lifecycle value and how we think about services. So as we think about the potential business case, we're evaluating all of those elements of the lifecycle and how that can best serve our customers and best enable us to compete in the marketplace.

And we're doing this together as a team. To your point, my leadership team across the entire enterprise, all of our functional expertise across supply chain, engineering, operations, finance, our talent pool, our businesses, all of the capabilities we have, this is a shared enterprise effort as we think about how do we position The Boeing Company to be a global industrial leader for our second century. And the opportunity here in terms of building this business case will help us in that transformation journey as well. So you can bet we're going to be diligent about that. We're going to build a business case that makes sense for our company in the long term and adds value for our customers, and our decisions on whether or not we launch will be dependent on that rigorous business case.

**Thomas J. Downey - The Boeing Co.**

Operator, we have time for one last media question.

**Operator**

And we'll go to Gillian Rich with Investor's Business Daily. Please go ahead.

**Gillian Rich - Investor's Business Daily**

Hi. So my question is about what specific lessons did you guys learn from the Tanker issues and how they relate to the 737 MAX and the T-X.

**Dennis A. Muilenburg - The Boeing Co.**

Yes, I think to put that in a capsule, what we've learned is that as we think through detailed design integration, where for the first time we're building a military product, highly modified, in our commercial product line, we see huge cost advantages to bringing that capability in line in our production models. But around the edges of that, things like systems installation, wiring installation, the details that go into concurrently designing and building and how to do that most efficiently, those are the lessons that we're learning.

And those are now getting applied to our next stage of development programs. Again, the work we've done on Tanker, while we haven't executed the development program as well as we would like to, it's leading to a high value product for our customers. We're still going to deliver these first 18 airplanes early in the next year, and this is going to provide long-term value to the U.S. Air Force. So it's a long-term franchise program, and as we learn lessons in development programs, we pick those up and we apply them across our enterprise. Makes us better and more competitive for the future.