Operator

Thank you for standing-by. Good day everyone and welcome to the Boeing Company's Second Quarter 2014 Earnings Conference Call. Today's call is being recorded. The management discussion and slide presentation plus the analysts and media question-and-answer sessions are being broadcast live over the Internet.

At this time, for opening remarks and introductions, I am turning the call over to Mr. Troy Lahr, Vice President of Investor Relations for the Boeing Company. Mr. Lahr, please go ahead.

Troy Lahr

Thank you and good morning. Welcome to Boeing's second quarter 2014 earnings call. I am Troy Lahr and with me today are Jim McNerney, Boeing's Chairman and Chief Executive Officer and Greg Smith, Boeing's Chief Financial Officer. After comments by Jim and Greg, we will take your questions. In fairness to others on the call, we ask that you please limit yourself to one question. As always, we have provided detailed financial information in today's press release and you can follow this broadcast and slide presentation through our Web site at boeing.com.

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

Now, I will turn the call over to Jim McNerney.

Jim McNerney

Thank you, Troy and good morning. Let me begin today by acknowledging the families of loved ones of those aboard Malaysia Airlines Flight 17. All of them and everyone affected by this horrific tragedy are in our thoughts and prayers at this time. For the men and women and Boeing and others throughout our industry who are passionately committed to ensuring the safety and security of passengers and air crews, this is a particular unsettling and painful moment in the history of civil aviation. We are providing technical assistance to the investigation at the request of the NTSB which is supporting international authorities in the important work they have underway.

Turning back to the subject at hand this morning, I'll start with some comments on the quarter and our business environment. After that Greg will walk you through details of our financial results and outlook.

Now let's move to Slide 2. Boeing delivered strong quarter operating performance across our production programs and services businesses with solid revenue, double-digit core EPS growth and healthy cash generation. Our strong positive performance through the first half of the year has allowed us to continue returning cash to shareholders and increase guidance for our full year EPS by $0.75 which includes approximately a $0.50 tax benefit. Greg will discuss guidance in more detail in just a couple of minutes.

During the second quarter we did record a 272 million after tax charge on our fixed price U.S. Air Force tanker program engineering and manufacturing development contract. The charge was driven by higher spending needed to complete systems installation on the tanker to test that aircraft and maintain the schedule for delivering this vital capability to the war fighter. As you may recall we noted in our Investors Conference that we were beginning to see some challenges in the build and systems installation process. The increased spending is primarily related to additional engineering and systems installation rework required mainly to meet wiring specifications.

The issues at hand are well defined and understood which in no way mitigates our disappointment in having to take this charge, but the actions we have taken to keep us on path to the next major program milestone which is to begin test line fully provisioned tanker aircraft in the first part of next year. With a long-term potential market for the KC-46 tanker of up to 400 airplanes worth $80 billion, it remains a franchise program for Boeing. And we expect to realize strong returns over decades of production and in service support.

With that said let's discuss our core operating performance during the quarter. Revenue at Boeing Commercial Airplanes was $14.3 billion and operating margins increased to 10.8% a result of both the higher volume and a favorable delivery mix. We delivered 181 commercial airplanes in the second quarter including 37 87-Dreamliners and we added net new orders of 264 airplanes. So far in July we have booked another 282 orders including those announced by customers at the Farnborough International Airshow bringing our current net order total to 783 for the year already a book-to-bill greater than 1.

Boeing Defense Space and Security reported revenue in the second quarter of 7.7 billion. During the period BDS captured numerous key contract awards including a $1.9 billion order of 44 U.S. Navy and Royal Australian Air Force E/A 18 and F/A 18 aircraft, a $700 million order for five years of AEW&C in service support from the Royal Australian Air Force and a $200 million order for our 9th 702MP Intelsat satellite. Significant program milestones included a successful missile defense system intercept test delivery of both the 4th P-8A, P-8I to India and the 100th P-18G to the U.S. Navy.

With that let's turn to the business environment on Slide 3. Global demand remains high for the superior fuel efficiency and economics provided by our family of commercial airplanes as recognized in the order totals I've mentioned earlier. Global passenger traffic trends continue to be healthy and air cargo traffic is still gradually improving. In addition to growth driven demand we continue to experience and foresee sustained high replacement demand where newer more efficient airplanes offer compelling economics and a rapid return on investment compared to keeping older less efficient airplanes in service.

Combining growth and replacement needs over the next 20 years we forecast global demand for nearly 37,000 commercial airplanes a 4% increase over the last year's forecast. Deferral requests from customers are still running well below at historically average while request to accelerate deliveries remain brisk. This ongoing strong demand coupled with our already sizable and diverse backlog of more than 5,200 airplanes reinforces our planned production rates and outlook for sustained growth in the years ahead.

In the Twin-Aisle segment we continue to see healthy demand for both the 777 and the 777X which continue to out sell the competition by a wide margin giving us confidence in our ability to transition between the two airplanes. As part of our focus on that transition we are looking to maximize production efficiencies with existing best practices from other programs as well as advanced new manufacturing technologies. For example last week we unveiled a new robotic system for building 777 Fuselages this automated approach will increase first time quality reduce build times and improve work place safety for our employees.

On the 787 program we achieved major milestones with certification of 330 minute ETOPS and the on schedule certification in first delivery of the 787-9 to Air New Zealand. Development of the 787-10 also is progressing to plan with the first delivery in 2018. In the Single-Aisle segment demand for our new fuel efficient 737 MAX remains high with cumulative orders exceeding 2,100 airplanes from 43 customers, the production bridge from today's 737 to the MAX remains solid with the first MAX delivery in 2017.

Turning to Defense, Space & security, we continue to see solid support for our major programs in the FY15 budget process. We are encouraged by the actions taken in both the house and senate appropriations committees with regard to additional P-8s, Apaches and EA-18G aircraft. International Defense, Space & security business represented nearly 30% of BDS revenues during the quarter and remains at approximately 35% of the BDS backlog as we continue to leverage our unique One Boeing global advantage.

Our investments in technology and innovation for organic growth continue in areas such as commercial derivatives, space, unmanned systems, intelligent surveillance and reconnaissance, cyber security and the few but critical future large-scale programs identified as priorities by our customers like Long Range Strike, UCLASS and the T-X Trainer. The relative strength of our Defense, Space & Security business stems from a portfolio that is reliable, proven and affordable and is being delivered on budget and on schedule. We remain intensely focused on driving further efficiency, quality and productivity gains to improve program profitability and fund investment and future growth.

Defense, Space & Security continues to make great progress on our market-based affordability initiative as we strive to take out another $2 billion in operating costs. Along those lines benefits from our enterprise partnering for success approach with suppliers continue to accrue. For example in collaboration with our partner Japanese aircraft industries we're reducing cost of producing various 777 parts through value engineering, a great joint effort that will help ensure the continued competitiveness of the 777 airplane in the marketplace.

In summary, notwithstanding our disappointment over the charge on tanker our team delivered another strong quarter of core operating performance, captured meaningful growth through new business and made great progress on further improving productivity and achieving important program milestones for us and our customers.

Now, over to Greg for our financial results and our updated guidance, Greg?

Greg Smith

Thanks Jim and good morning. Let's turn to Slide 4 to discuss our second quarter results. Second quarter revenue of $22 billion was driven by 7% increase in commercial airplane deliveries and higher commercial services volume. Core operating margins of 9% reflects solid productivity gains on production programs and across the services businesses offset by the impact of the tanker charge.

Second quarter core earnings per share increased 45%, $2.42 a share on additional tax adjustments, higher commercial volume, and continued strong operating performance on core production programs. During the quarter, we recorded a tax benefit of $116 million for the 2007 and 2008 tax settlements that we discussed in April as well as an additional $408 million tax benefit related to the 2009, 2010 tax settlement and the tax basis restoration.

The $425 million pretax charge or 272 million on an after-tax for the tanker program largely relates to additional engineering and manufacturing labor associated with challenges we encouraged in the wire installation as we move into the systems integration stage of final assembly on the initial test aircraft.

As we said before given the significant long-term Tanker market opportunity as Jim discussed, we bid the EMD phase with the Tanker program aggressively with zero margin with plant profitability generated during the production phase. Looking at our overall performance to-date on the program, we have met all customer milestones and are proceeding with functional testing to be followed by the start of the initial Tanker flight testing in early part of next year.

As Jim noted despite our disappointment in encountering these challenges, the issues are well understood, no new technology is required to resolve them. And we believe the program is sufficiently provisioned and has a solid path forward. We are confident we're taking the right steps to fulfill our promises to our customer. Excluding the Tanker performance encountered in the quarter, we continue to make great progress across other areas of the business. Let's now turn to commercial airplanes on Slide 5.

For the second quarter, our commercial airplane business increased revenue 5% to 14.3 billion on 181 aircraft deliveries and including a record 124 737s and 30 787s. The business also increased operating margins in the quarter to 10.8%. Higher volume and our focus on efficiently executing on our rate increases and continuously driving productivity led a strong operating performance during the quarter than more than offset the $238 million pretax charge related to the EMD Tanker contract at BCA.

Commercial airplanes captured $17 billion in net orders during the quarter and backlog remained very strong at a new record of $377 billion over 5,200 aircraft equates to approximately seven years of production. In the second quarter while at a declining rate 787 deferred production increased $1.1 billion to 24.2 billion, largely driven by increase in our rate of production on the 787-9 and inventory pull ahead to efficiently optimize our production and minimize -8 disruption as we introduced the aircraft into our production system.

Based on further production stability, plant contracted higher step down pricing and continued overall productivity improvements. We expect the quarterly change in deferred to improve over the remainder of the year. The cash flow profile of the 787 continues to improve as we drive productivity throughout the production system. We continue to see good progress on key operational performance indicators and unit cost as we further implement production efficiencies and increase 787-9 production.

As we continue our efforts to optimize the production system and maximize efficiencies at the 10 per month rate, the team continues to make progress in reducing 787-8 unit cost by approximately 13% and improved final assembly flow times by more than 10% over the past year. Travel work has also been significantly reduced declining by greater than 30% since this time last quarter. We are also continuing to see good progress in the 787-9 productivity where we've seen 50% improvement in unit cost and a 25% improvement of flow time from the first aircraft to the seventh aircraft to rollout the factory.

Overall, we've made solid improvement on the 787 program. However, great deal of work ahead of us as we increase -9 productions, introduce the -19 into early stages of our production system and continue to optimize to drive further productivity and profitability on the program. We remain on track to deliver approximately 110 787s in 2014 and again the team remains focused on day-to-day execution and improving long-term productivity and profitability on the program.

Let's now turn to the Defense, Space & Security results on Slide 6. Second quarter revenue for our Defense business was 7.7 billion and operating margins were 7.5%, a strong performance on production programs and favorable delivery mix offset by the $187 million pretax charge on the EMD Tanker contract. Boeing military aircraft second quarter revenue declined to $3.5 billion reflecting delivery mix and operating margins of 4.7% in the quarter again impacted by the tanker charge.

Global Services and Support revenue at 2.3 billion reflects slightly lower volume in the maintenance mod and upgrade business and strong operating performance across that business drove operating margins to 11.6%. Network and Space systems reported revenue of 1.9 billion on lower commercial satellite volume and generated operating margins of 7.8% in the quarter. Defense Space and Security reported a solid backlog of $63 billion with 36% of our current backlog now from international customers.

Now turning to Slide 7, Boeing Capital's net financing portfolio declined to $3.4 billion on run-offs that exceeded new aircraft volume.

Now look at cash flow on Slide 8. Operating cash flow for the second quarter was 1.8 billion driven by solid operating performance and timing of receipts and expenditures. With regards to capital deployment we paid $530 million in dividends to shareholders and repurchased 11.4 million shares for $1.5 billion in the second quarter. We continue to anticipate completing the remainder of 6.8 billion repurchased authorization over approximately the next two years. Returning cash to shareholders along with continued investment to support future growth remains the top priority for us.

Moving now to cash and debt balance on Slide 9, we ended the quarter with $11 billion of cash and marketable securities and our cash position continues to provide solid liquidity and positions us very well going forward.

Turning now to Slide 10 to discuss our outlook for 2014, we're increasing our core earnings per share guidance for 2014 by $0.75 to now be $7.90 to $8.10 a share reflecting the $408 million tax benefit and strong core operating performance that more than offsets the impact of the tanker charge. Guidance for revenue, operating cash flow and delivery remains unchanged. Commercial airplane operating margin guidance for 2014 has increased, to now be greater than 10% on continued strong operating performance.

Over the remainder of the year we anticipate BCA margins to be impacted by higher 787 deliveries, some additional fleet support and additional investments in productivity initiatives. Defense Space and Security operating margin guidance for 2014 is unchanged at approximately 9.5% with lower margin guidance in BMA, offset by higher guidance into the DS&S business.

In summary second quarter performance reflects the strength of our backlog, the strong demand for our products and services and our continued focus on driving productivity throughout the entire enterprise. And furthermore as evidenced by the meaningful dividend increase and a higher share repurchase activity we continue to expect to deliver solid growth, productivity and strong cash flows going forward.

With that I'll turn it back to Jim for some closing comments.

Jim McNerney

Thanks Greg. With a strong first half behind us and the team that is focused on sustained strong business performance we're ready and committed to deliver on our strengthened outlook for the remainder of 2014. Our priorities remain clear, the profitable ramp up in production on our commercial airplane programs executing on our commercial and defense development programs with the emphasis on tanker, driving productivity and affordability throughout the enterprise, continuing to strengthen and position our defense business with investments in growth areas midst further international expansion and all the while providing increasing value to both our customers and shareholders.

With that said we'd now be happy to take your questions.

Question-and-Answer Session

Operator

(Operator Instructions) As reminder, in the interest of time we are asking that you limit yourself to one single part question. (Operator Instructions) And first going to Howard Rubel with Jefferies, please go ahead.

Howard Rubel - Jefferies

Despite the admonition, it's going to be sort of a two part question and part of its -- so there's two parts to it. If we think about it, the tanker -- you probably missed the program cost by about 10%. Can you help us understand why you've killed all the bugs in the program? And then second, if we adjust margins for R&D and maybe exclude what appears to be 787 revenues, your margins on the core business continue to improve. So the question really is, with that kind of improvement, why aren't we seeing some of that translate into even better numbers on the 787? Because if you are getting the core business there, some should spill into the other business. Thank you.

Jim McNerney

Let me address your second question first on margin improvement. You are right, I mean I think again the continuous focus on productivity whether it's within our four walls or through the partnering for success initiatives is driving a lot of that. And there has been improvement on the 787. We're certainly not at the levels that we expect. So we have high expectations on driving margins further on that program, but we have seen improvements on that program as well as I'd say on the core program in particular the 37 and the 777, so continuing the focus there Howard, big priority for us, big priority within partnering for success certainly at 787.

With regards to the tanker program you know certainly as we worked our way through the integration on that first aircraft and learning from that and understanding from the challenges we were faced with, we certainly understand the scope of work that needs to be done on the balance of that aircraft as well as aircraft two through four and that's giving us the confidence to understand again how to get completion. This is not new technology or innovation this is basic kind of blocking and tackling who work through the redesign on the engineering effort primarily around the wire harnesses and then the manufacturing labor to work through installing those.

So we have got some of that activity completed on the first aircraft enough to move into first flight which will be late in the third quarter this year and then the balance will obviously be scoped that will be applied on those other airplanes. If you look at kind of some of the things that are done on this program maybe versus some of the others, lab so we have wet fuel lab, we have a lighting lab and those are all put been put in place and right from the beginning of the program to de-risk the program. So we have a very functional wet lab where we're actually running fuel through pumps and valves to validate that on the ground so when we get in the air that minimizes that risk.

And so there's things like that Howard that have been put in place that we're continuing to make our way, you know making progress on as well as working our way through the functional testing on that first airplane. So that's kind of how we're thinking about it. Again we're comfortable about the path forward, we're committed to meeting the customer milestones through the balance of this contract and that's what the team has been focused on. And the long-term profitability I should also mention on this program and that objective is unchanged as we work into the production phase of the contract.

Howard Rubel - **Jefferies**

Thank you very much.

Jim McNerney

Welcome.

Operator

And next we go to Carter Copeland with Barclays, please go ahead.

Carter Copeland - **Barclays Capital**

Hey, good morning gentlemen. Greg, just a question on the BCA margins which you know ex the charge look like they were very strong at 12.5 you know given the 787 mix it's a pretty high number and I wondered if you could help us with that a little bit, you know the universe's program differences were about $2 billion and I wondered if you might give us some color on that and let us know if there's any or there're negative differences on any of the mature production programs and did those program on the 73 and 777 you mentioned they were better but were those at record margin levels or was there something else going on in terms of period expenses, I know the R&D was a little bit lower but any color you can provide on how those margins compared to the historical trend?

Greg Smith

Yes, I mean program to program they varied slightly I mean certainly 37 and 777 continue to have solid margins we did have a slight increase on the 787 as well, and you know the team is doing a very good job manning during the period expense whether it's the G&A or the R&D or the fleet support. Now when you look in the back half, obviously we got more 787s in there so we'll have some dilution on the margin from that perspective and a little bit higher period expense that I talked about I think on the last call where we got more new customer introductions going on so we're going to spend a little bit more on fleet support to ensure that our customers have a smooth transition of entering that airplane into service. That predominantly was what's driving the back half but again we're staying very laser focused on looking for further opportunities there and continuing to drive productivity but I would tell you that these safe programs are running very well and they're doing a very good job executing on these rate breaks at the same time continuously focused on productivity.

Carter Copeland - **Barclays Capital**

And were the 37 and 777 differences negative?

Greg Smith

Negative, I'm sorry, I don't quite understand.

Carter Copeland - **Barclays Capital**

Meaning, were they -- did you subtract from those programs, meaning was their unit profitability better than their program profitability in the quarter?

Greg Smith

Yes.

Carter Copeland - **Barclays Capital**

Okay, thank you.

Greg Smith

You're welcome.

Operator

Our next question is from Doug Harned with Sanford Bernstein, please go ahead.

Doug Harned - **Sanford Bernstein**

Thank you, good morning. When you look forward over the next, I would say four to five years and think about how you're investing in BCA and you go through completing the 787 in max models and then you're moving forward the 777x, how should we expect R&D and CapEx to go over that time period, what's the trajectory projection we should think about for those.

Greg Smith

Well, let me, maybe I'll start with CapEx and then we talk more about R&D. But certainly on CapEx I think for next year you're going to see levels from all of this year and that predominantly almost all of it really investing in the future so this is all about the additional great breaks coming up along with productivity. Jim talked about the 777 automation so we are making some investments in the production system as well but again a lot of that is driven on the growth so after that Doug I think we'll start to see the CapEx moderate at I'll say kind of more normal levels at a stable production rate going forward.

On the R&D certainly you know we will peak out here on R&D on the MAX in about 2015, obviously 787-9 ramping down but -10 ramping up and then feathering in 777X and -10 in there so we're continuing to look at those profiles over the next couple of years and how they will play out in meeting our entry into service date, but we'll see slight increases in the next year but again we're managing it very tightly and I know Jim has talked a lot about how we're managing development we talk about a lot at the Investor Conference and we're continuing to do that optimize our spending.

Doug Harned - **Sanford Bernstein**

But should we think about it as these sort of ebb and flow here that things should be somewhat flat when we expect with the 777X as we've seen improvements in the past some kind of a ramp up out in the 18-19 timeframe is that, we looking at that type of a difficult trajectory?

Jim McNerney

I'll jump in here Greg is tired Doug.

Doug Harned - **Sanford Bernstein**

Okay.

Jim McNerney

Listen, this development program the two design pillars of the remaining part of the decade were aborting major pileups of engineering with concurrent work being done and the second pillar was not absorbing as much risk in each development I mean in other worlds capitalizing on some of the hard fought technology hands would have to not adding risk to that. And so I think those comments imply a design on some of pressure but nothing like your question imply I mean our plans do not have big pileups in R&D along the way is more characterized by very manageable no major year-over-year spikes now we'll report on that as we get close to this but the design of this is moderation would be a word that I use rather than precipitous in any given year.

Doug Harned - **Sanford Bernstein**

Okay. Thank you.

Operator

Next we go to John Godyn with Morgan Stanley. Please go ahead.

John Godyn - **Morgan Stanley**

Thank you for taking my questions. Jim and Ray I was hoping you guys could maybe reflect a little bit on Farnborough and what transpired there particularly just given the A330 NEO announcement and you think it might affect the competitive bounce a bit and as well as 777 I think some of that I hope to see a little bit more other activity there but I understand that these campaigns can take a while to pull up?

Jim McNerney

Well we did have a 150 777X orders at least the four Farnborough but look the competitive question and I know that's what you're really driving here, one way to look at the A330 NEO is that it replaces an ambition to have a second A350-800 model. So in some respect it's a tread of older technology re-engine up for newer technology and I'm not sitting with the Airbus guys as they make these calls but F1 we'll look at it old technology for new and whereas we've got in the wide body space five new airplanes all of which exceed the competitive performance of what we've seen from our competitor and so I really like that line up and I think if you look at year-to-date orders wide bodies for example I think you will see a very healthy dose of I forget exactly someone to mid 200s wide bodies and I think with the Emirates cancellation our competitor may be negative for the year. So that is a more strategic timeframe than what happen during three days at Farnborough but I really like the relative strength of our wide body offerings, those five air planes all new, all selling briskly with a sort of a mix of new technology and reengineering technology that our competitor has.

John Godyn - **Morgan Stanley**

There is a little bit of a concern among investors that book-to-bill might start to flip I was hoping that you could offer a little bit of perspective on that during your comments there.

Ray Conner

I mean I think we continue to see risk demand as we've said I mean as I mentioned in my remarks deferral requests are well below historical averages for our company, move the airplane up accelerate the delivery far above what we've historically had and the reason for that is this new technology that we're offering pays back so quickly even when compared to airplanes that haven't reach their full life out there I mean you can for the least rate you have to pay incremental capital you have to deploy the payback is so quick with oil prices that don't promise to come down with the geopolitical world that we are in, payback so quickly that this replacement demand is half or some segments more than half of the demand not just growth not just underlying GDP growth or growth in aircraft.

So it is in our book-to-bill for example in July is already above one-to-one and we're halfway through the year. So we haven't seen signs of it yet. I realized that it is a professional sport to call the cycle in this industry that we're in, but this industry has not seen this kind of replacement economics since the 707 and that was in the mid 1950s where the payback was so dramatic and the performance was so different. So we're seeing those signs of it yet.

John Godyn - **Morgan Stanley**

That's a lot of the great color. Thanks a lot.

Jim McNerney

You're welcome.

Operator

And we'll go to Cai Von Rumohr with Cowen and Company. Please go ahead.

Cai Von Rumohr - **Cowen and Company**

Yes, so your deferred on the 787 went up by 1.1 billion, maybe give us some color on how much that was the rate increase and how much was the inventory pull forward which is essentially discretionary move on your part to improve? And give us some color on the pattern in the third and fourth quarter. I mean we're going to get the zero and the impact on the deferred from the fact that while A330 NEO is probably not as efficient as the 787, it's certainly priced lower given the orders they have received and you know what response you're going to make and what impact does that have on 787 deferred? Thanks.

Greg Smith

Okay, let me -- I will talk about the deferred and then I'll hand it over to Jim, who can talk more talk about kind of pricing on the 787. But you're right our airplane is much more efficient. So on the 787 on deferred Cai, about a third of that growth we saw there was inventory pull head to support -9. And as I talked about in my opening remarks, I mean, seven airplanes and we've seen 50% increase in unit cost, so it really gives you a sense of the cadence and the work that people are focused on to improve productivity on the program, as you think about the kind of the path forward to the end of the year certainly learning curve.

We got to continue to come down the learning curve as we have and that includes obviously on the -8 but obviously with more -9 in the flow, so got to continue to work that. We do have some supplier step down through the balance of the year. There is some model mix movement that will take place in the balance of the year that should be favorable for deferred. And then as you've mentioned, I mean quarter-over-quarter I'd say month-over-month, we are making inventory decisions to pull forward components if they're ready, get them into the pictures and do all much pre-work as we can and frankly that's why you've seen us being able to stabilize that production system.

So that's kind of the given take that's going to take place through balance of the year. At the same time, we're not doing as much pull ahead as we have because we're more stable at end of month. It's really-really around -9. And then again continue to focus on stabilizing the production system in all positions of the assembly.

So that's kind of I'll see the moving pieces as you look through that end of the year Cai. As I said to you certainly, this is a big focus area for us but the day-to-date focus on that program is on unit cost and cash, that's the focus which ultimately I recognized in deferred, but that's with that team is executing to -- again good progress but again we got to continue to comedown that learning curve through the balance of the year and going forward to drive profitability and ultimately impact deferred.

Jim McNerney

Yes, Cai, your question about A330 NEO as compare the most comfortable airplane would be the 787-10 in terms of remission. Look our strategy is to produce the most capable airplane and then share the value with our customers that that value produce and obviously the values to components, one is efficiency that's all about fuel big advantage -10 compare to the A330 NEO in the neighborhood of mid double digits kind of advances and also performance. I mean I think the reach of the airplane little greater.

And so we feel very comfortable even under scenarios where, as your question implies they would have to accept less-price for a less capable airplane. We feel very comfortable when we sort of model that all out that our returns are good and the capability of our airplane sustains value for both us and our customers. And so, I think I understand why they made this decision. It's a far less capable airplane and don't have to make decisions on how they price it and how they market it. But these aren't pancakes we're dealing with. These are airplanes, major investments that produce a lot of value and they are good.

Operator

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

Joe Nadol - JPMorgan

I was intrigued with the comment that you increased by a small amount the accrual rate for 787. I think that's, if I'm not mistaken, the first time you've done that except for the time that you extended the accounting quantity by quite a bit. And I was just wondering if you could give us any detail on what gave you the confidence to do that.

Jim McNerney

Well certainly again coming back to partnering for success that was one of the bigger elements of the movement within the quarter Joe. And like we talked in the past, on the partnering for success efforts 787 is the big, our number one priority. So started to see some of that come together with our suppliers and reaching agreements and we booked it. And that's essentially what drove the change quarter-over-quarter.

Joe Nadol - JPMorgan

Greg, do you feel like that there's room for small steps if things keep going in that direction in the coming periods? Or that 787 margin is something we are going to have to wait a while for or is this something that -- how do you feel about, I guess, the prospects?

Jim McNerney

I think it's going to take time Joe there is no question about it. I mean quarter-over-quarter I wouldn't expect a lot of movement. But we have a plan by supplier, by component and working with those folks. So it really kind of gets to how we can accelerate those discussions or negotiations and reach up an agreement. The more time we spend on partner success the more mature we're getting with those discussions and we expect to do that. But it's going to take some time, but clearly again it's the number one priority and focus and we have a plan and so we got to continue to execute that and work with our partners. Because the long-term certainly prospects of this program are extremely beneficial to everybody including our suppliers. So we continued on the journey that we started here.

Operator

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

Myles Walton - **Deutsche Bank**

Greg, maybe a question for you on cash flow, it's been pretty strong year-to-date when you consider the headwinds from the 67 and the union bonus. And I look at the full year and there's been no raise there and I'm assuming the tax benefits are no cash. But it still would imply the second half of 2014 cash flow is half of what it was in the second half last year despite lower deferred production growth. So maybe can you just walk us through how much conservatism is there or other puts and takes?

Jim McNerney

I mean remember last year too we had a lot of timing benefit very late in the fourth quarter which I don't expect at the same level as we were going to experience this year. We got more cash taxes by close to $1 billion this year compared to last year and again some of that is back loaded when you compare. But I would just say very focused obviously on generating cash, we're comfortable with our approximately $7 billion cash flow and if we see that improving through the next quarter then we'll update our guidance going forward. But at the same time when you look at the long-term prospects on cash flow for the company that is unchanged, I mean delivering on this backlog and executing to our plans is going to generate a significant amount of operating cash going forward and we're going to deploy that in the most efficient and effective way possible. So continue to focus on Myles, again it's hard to compare fourth quarter or third quarter this one. Because a lot of moving pieces within the quarter but again if we see opportunities to improve that we will but we're comfortable with where we're right now.

Operator

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

Peter Arment - **Sterne Agee**

Jim, just maybe you could just give us some thoughts on the outlook at BDS. I mean your backlog continues to be very strong. Book-to-bill was a little under one but you gave some comments in your opening remarks about the longer-term outlook there. I mean do you think that we're going to be able to sustain kind of this $30 billion-plus revenue number given your outlook?

Jim McNerney

Yes I do, I mean I think the math for that business is over time tanker replaces C-17, actually little more when you look at the numbers. There was a couple of big development programs coming up. Three that I mentioned in my remarks there is a couple of other ones. Our opportunity to win those, a couple of those is good, which would mitigate risk on the fighter side as the F-18 and the F-15 over the next decade face some setting. And then the upside is international. I mean one of the unique things Boeing has is strong company to country relationships built over the years largely in our commercial business that has broad industrial base and cooperation in many of world's key countries that help us in campaigns both on the BDS and the commercial side.

And there is a lot of action out there. I mentioned the 35% of our backlog, I would probably say somewhat more than that as a percentage of our discussions of the pipeline out there. And historically we've done well. So that adds up an equation with the helicopters and space and some of the other things staying flat or slightly up. That adds up to an equation of flattish growth with maybe some upside. But with the U.S. defense market being what it is. I think we want to keep our feet underneath this our costs under control because there is a unpredictability about that. We think we've got that risk covered. We think we understand it, but it remains a bit of a wildcard and we want to be ready if there is a wildcard and I think we will be.

Peter Arment - **Sterne Agee**

That's helpful. I'll stick to one, thanks.

Operator

And we'll got to David Strauss of UBS, please go ahead.

David Strauss - UBS

Greg, you talked about improvement on the 787-9 in terms of the unit cost. As you look out, when would you -- I think you talked about the 787-9 being better from a cash perspective long-term than the 787-8. When do you see the 787-9 catching the 787-8 from a cash perspective? And what are you assuming in terms of the 787-9 as a percentage of the production mix over the next 12 to 18 months?

Greg Smith

I would say David you'll see that probably around the 2016 timeframe when you look at what's in the production flow and the mix between -8 and -9, that's probably where you'll really start to see the benefit of the -9 system. I'm sorry I lost you on the second question.

David Strauss - UBS

Just what you're assuming when you talk about deferred coming down per quarter. What you're assuming for the 787-9 as a percentage of the production mix over the next 12 to 18 months.

Greg Smith

I can tell over the cost space you're looking at more about a 40% of that cost space is assumed to be about that -9, some of that obviously is already done and then there's some assumptions in there about key customers that we will convert from -8 to -9 but generally that's kind of the profile you see over the entire cost space.

David Strauss - UBS

Okay, great. Thank you.

Operator

And we'll go to Sam Pearlstein with Wells Fargo, please go ahead.

Sam Pearlstein - Wells Fargo Securities

I was wondering if you could just address the situation that got a lot of press around the Ex-Im Bank and the financing. I'm just time to think about if that were not to get renewed, should we start to see BCC's portfolio start to turn in the other direction? Or what would it take for BCC's assets to start to go back up?

Jim McNerney

Well first of all Sam, I think the chances are good. My assessment is that the, the bank will be reauthorized now there's risk it won't okay, but I just want to give you my view and so addressing that risk. You know the Ex-Im bank has come down as a percentage of our customer base in terms of what percentage relies on them and that has reflected a lot of liquidity in the capital markets but there are times when the markets are less friendly that the Ex-Im bank does go up and becomes a significant percentage. The -- I think the issue is more about level playing fields with our competition than it is Boeing goes under without the Ex-Im bank, okay. I mean I think this idea of unilaterally disarming US manufacturers while European manufacturers continue to get copious kinds of Ex-Im type support is something that -- and that traces back to -- I don't think the political infrastructure will do that. So it's more an issue of that of losing some campaigns out there where that is important if we didn't have the Ex-Im bank. Scrambling, using our balance sheet somewhat more and we worked with the net earning assets at BCC down significantly over the last few years. So there's some room there, but it would be more an issue of competitiveness than it would be an issue, and that's a big issue, okay, it's a huge issue, that it would be the balance sheet of Boeing and the credit rating of Boeing being threatened.

Sam Pearlstein - **Wells Fargo Securities**

Thank you.

Troy Lahr

Operator, we have time for one more question.

Operator

We'll now hear from Jason Gursky with Citi, please go ahead.

Jason Gursky - **Citigroup**

Jim, I was wondering if you wouldn't mind just talking a little bit more about the cycle itself. And your view on how this cycle plays out. We don't have any production rate increases, per se, in front of us for a couple of years. Can you -- how long do you think we can sustain production rates over the course of the rest of this decade? What other growth drivers might you have if we are plateauing in production, per se? And are there plenty of opportunities out there to drive earnings growth through margin expansion if you have plateaued from a production perspective?

Jim McNerney

Yes, I mean, just starting at the highest possible level I mean, one of the reasons we like being the world's largest aerospace company, participating in many sectors, some commercial, some defense, some state there obviously is some risk mitigation, value of diversification, some things are up some things are down, so that's an overall thought and we still like that thought. The -- but I know your question is more centered on the commercial part of our company and again you know we are in a, driven by Boeing in a big technology change out cycle here that is responding to oil prices, you and I can whether it'll be $90 or a $130. These airplanes payback at any considerable oil price in this unfriendly world we all live in. So starting with the 787 and it's now flowing through the rest of our wide-body product line promises to flow into our narrow-body product line sometime in the next decade and the next decade we don't know yet. This offer huge efficiency and maintenance advantages that do encourage people to retire plans earlier than they would where these alternatives not available so and they pay back. So every sign I see is that this technology change out is going to led just look at our airplanes 777X is going to keep going over the next decade or so that I can see right now.

So that's the difference compared to normal cycles. And so that supports the argument that says, it's extended and it's really hard to call. And we have a lot confidence in our production rates they do drop a little bit in '17 and '18 and in the 777 and in the 87 that we talk about. So we see the extended growth market here.

Jason Gursky - **Citigroup**

Okay. And then on the earnings growth side in that context and their focus on margins maybe little bit about the big driver see there?

Jim McNerney

Well I think the big drivers are going to be in our commercial business. We tend to have lumpy earnings when we take too much risk in development. And I think which is why the mantra of de-risking the decade in front of us has been something that where we've all after having gone through 787 experience, we all thought a lot about and so flowing the right amount of technology into the 787-9, 787-10 the 737 MAX, 777X-8 and 777X-9 enough to capture enough of this technology advantage but not more than people willing to pay for or more than what drive risk that we're not willing to absorb, we try to think a lot about that and as I imply and I think it was I forgot who ask the question it might have been done on R&D.

By design we sort of got a stability both in our research and development spending and in the amount of risk associated risk were taking during that and when you ask stability in this business and you get these programs driving margins as we've I think demonstrated over the last three to four years you can make money in this business and I think you're going to see more of that.

Jason Gursky - **Citigroup**

That is helpful, thank you.

Jim McNerney

Sure.

Operator

That completes the analyst question-and-answer session. (Operator Instructions) I'll now return you to the Boeing Company for introductory remarks by Mr. Tom Downey, Senior Vice President and Corporate Communications. Mr. Downey, please go ahead.

Tom Downey

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

Operator

We'll go to Julie Johnsson, Bloomberg. Please go ahead.

Julie Johnsson - **Bloomberg News**

Good morning gentlemen.

Jim McNerney

Good morning.

Julie Johnsson - **Bloomberg News**

Jim you have got a big birthday coming up next month. And can you just walk us through what we can expect on August 23? Will you be at your desk and has the Board approved you staying on past age 65?

Jim McNerney

The heart will still be beating. The employees will still be cowering. I'll be working hard, there is no one to decide where continuing to build the succession plan and alternatives to succeed me eventually but there is no discussion of it yet. So there still be asking questions of me.

Operator

Next we'll go to Christopher Drew with The New York Times. Please go ahead.

Christopher Drew - **The New York Times**

Good morning.

Jim McNerney

Good morning.

Christopher Drew - **The New York Times**

Jim and Greg, can you talk a little bit more just in simple terms on the tanker of how the design went off in terms of the wiring harnesses? And it seems like a pretty straightforward problem. What caused the issue?

Jim McNerney

Just like I'd say any development program once you reach the point of integration whether you're integrating the structure of the systems and wiring and that's where you're really give the capability of the how things are coming together in the efficiency. Structure of those airplanes came together extremely well where the challenges laid were really around the wiring and the wire harnesses themselves and redesigning effort to either move those wires or do whatever rework is required is really what we're dealing at. We started to experiencing that on the -- started the integration on that first airplane and that continued which really required us again to put some additional effort in place to go back and do redesign on those harnesses and along with that system installation and the manufacturing labor associated with it.

That is basically what is it and again it's well understood as I mentioned prior to one of the questions, it's not a technology leap. We know how to do it. We have done some of it already on that first airplane, so we're building off of that experience. And again, we're looking continue to de-risk the program and drive performance through the balance, which is again a reason why we put those labs or maybe investment in some of those technology labs and we're already seen the benefits of making that investment today. So team is very focused, they know what needs to get done and it's all about focusing on meeting customer commitments and that is our priority at this time. And we've got a plan to go execute to do that and it's a day-to-day hour by hour and the team is very focused on again the task at hand.

Operator

And we'll go to Doug Cameron with the Wall Street Journal. Please go ahead.

Doug Cameron - **Wall Street Journal**

Going back to the Ex-Im issue -- you seemed to imply a little bit that the -- you might be prepared to use the balance sheet but -- if you had to. But given that we know the arguments on both sides, Jim, would you be prepared to support some reform of Ex-Im going forward that perhaps restricted or limited the either the type of aircraft or the type of customer that had availability to it, which would at least preserve the broader competitive position even if perhaps Ex-Im fell a bit behind what the ECAs offer. But would you support some sort of reform?

Jim McNerney

Well, I think we have been supportive of reform over the last number of cycles. I mean as you know, the terms and conditions are a function of a treaty that basically the OECD nations debate and sign, and we have supported over the last couple of cycles increasing rates, increasing fees, making both of those more commercial term in nature. So that -- and do it in concert with the other ECAs around the world. And we'll continue to support this move toward more close alignment with commercial terms and we'll continue to support all kinds of efforts like that done in concert within the treaty. I think where we get uncomfortable is when we say, oh tractors, you can't land against tractors or gas turbines or wide-body airplanes. I mean why are -- why do we pick certain elements that some raise as not in need of support while the rest of the economy is. I support none of that.

Operator

And we'll go to Steve Wilhelm with Puget Sound Business Journal. Please go ahead.

Steve Wilhelm - **Puget Sound Business Journal**

Hi, gentlemen. In terms of the robotization of the 777X line, I wondered if you could talk about plans to expand that throughout other production lines in the future and also what that has to do with the competitiveness in terms of Europe and maybe China way in the future.

Jim McNerney

I think automation is and I know you're aware is we're starting with the 777 Fuselage. Lot of good work being done, hope of expanding it to both improve the quality of our airplanes to cost of which we produce them and the safety for our work and safety for our workforce. And yes, it is fair to say that overtime we would anticipate expanding that capability. There are other examples besides automation of the fuselage. There is paint shop 777 wing. I was out in Seattle recently and toward that, a terrific job being done using automation to paint major structures. So we are focused on that to improve our cost, quality and lives of our workers. And we will expand it overtime.

Troy Lahr

Operator, we have time for one last question please.

Operator

And that will be from Stephen Trimble with Flight Global. Please go ahead.

Stephen Trimble - **Flight Global**

On the tanker issue, we have seen a couple of warnings from DOCD and the DAO that the program could run 6 to 12 month late. And they haven't said anything about wiring harnesses or problems with the wiring. They've talked more about concerns about software and the aggressive flight test rates. Can you address those issues and are those things under control? Or is there a risk of further delays and further cost increases?

Jim McNerney

We don't see that today. I think on the flight test, we have from the very beginning as part of the fixed-price development contract, proposed a more commercial like flight test program. Our customer has agreed with us. When viewed parametrically, it seems shorter than other flight tests that are done in other ways, not as efficiently. So we disagree with that assessment. And other than the problems that Greg described on the wiring separation, wiring bundles some of that detailed design. The rest of the program is moving along well in part because of these laboratories we've set up at our own cost to de-risk systems quickly to fuel system before installing it on the airplanes. So doesn’t mean that something can’t crop up in the future but we don’t see it now.