Operator

Thank you for standing by. Good day, everyone, and welcome to the Boeing Company's Second Quarter 2011 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. Scott Fitterer, the Vice President of Investor Relations for the Boeing Company. Mr. Fitterer, please go ahead.

Scott Fitterer

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

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

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

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

W. McNerney

Thank you, Scott, and good morning, everyone. Let me begin by addressing the current business environment, followed by some thoughts on our performance during the quarter. After that, James will walk you through our results and then we'd be glad to take your questions.

Starting with the business environment on Slide 2. The global economy continues to transition to a sustained recovery although uncertainties remain as air transportation has been adjusting to the economic impacts of the unrest in the Middle East, rising oil prices, sovereign debt issues in Europe and the U.S. debt ceiling discussion and its related impacts. Notwithstanding these uncertainties, airline industry fundamentals remain sound. The continued strength and resiliency of the global economy is supporting growth for both passenger and freight traffic, which we expect to increase at or above long-term historical trends during 2011. This growth is driving continued demand for both airline fleet expansion and importantly, replacement airplanes.

Previously, we announced our plans to increase the 737 production rate from 31.5 airplanes per month to 35 in the beginning of 2012 and then to 38 per month in the second quarter of 2013. In June, we announced plans to further increase the 737 production rate to 42 airplanes per month beginning in the first half of 2014 in order to meet the unprecedented single-aisle demand.

With over 2,100 737 airplanes on order, this rate increase allows us to increase -- to meet our customers' requirements and opens new delivery slots for customers who want these airplanes sooner than we could otherwise provide them. We are working closely with our supplier partners to ensure we increase the 737 rate and our other production program -- our other airplane production rates in an efficient and responsible manner.

Twin-aisle demand continues to be exceptionally strong this year with the 777 taking 70 orders to date and the 747-8 receiving 5 firm orders and 22 commitments so far this year. Add to this, the breakthrough capabilities of the 787 with over 820 airplanes in backlog and it highlights the strength of our industry-leading position in the wide-body segment of the market for both passenger and freighter airplanes. We intend to maintain this lead as we evaluate the potential for our 787-10 to follow the 787-9 and eventually take steps to further improve the 777, the leading wide-body operating in the marketplace today.

In the single-aisle or narrowbody segment, the direction we are heading was made clear as part of the big order announcement last week by American Airlines, which included 100 737NGs and a commitment by the airline for an additional 100 re-engined NGs pending launch approval of that program by our Board of Directors.

Over the past 1.5 years working with our customers and industry partners, we have evaluated in rigorous detail 2 potential options for our next narrowbody airplane, and we are prepared to either pursue the re-engining option that I just discussed with an entry into service around the middle of the decade or an all-new airplane if we could get it to market in the 2019 to 2020 time frame.

Over the past few months, we have worked hard to validate the new small airplane option, which is largely a technical and production question. Our primary challenge became that we do not yet have a clear answer on the architecture of a production system that would incorporate new product technologies available to us and could ramp up quickly with acceptable cost and risk profiles to 50 or 60 airplanes per month by the end of the decade, which is the range of demand we anticipate in that time frame.

Also in recent months, a broader customer view has emerged in support of the greater certainty of gaining significant incremental improvement in a re-engined 737 in the near to midterm over the more perfect solution which may be available further down the road. It has always been our view that if it looked like we are putting meaningful market share at risk by waiting to do a new airplane, we would re-engine instead. That combined with our new engine technical production assessment against lead time for new engine decision led us to the judgment that we have made.

We are confident that our re-engined 737 will maintain the value proposition we have in the marketplace today and we expect to see strong demand for this product. It will be the most fuel-efficient airplane in its segment and have the lowest operating cost, while also meeting customer needs for range, payload, standardization, reliability and fleet compatibility.

Over the next several weeks, we will continue our work to finalize the configuration and other details in anticipation of a launch this fall pending board approval.

Turning to Defense, Space & Security. Despite environmental pressures and constrained budgets in the U.S. and Europe, global demand for defense products and services remains strong, particularly in the Middle East and South Asia. This demand is driven primarily by the need to modernize current capabilities to meet existing and future threats and upgrade or replace aging equipment. Our strategy remains to extend and grow existing programs, capture a larger sale -- a larger share, I should say, of international and services opportunities and move aggressively into high-growth areas such as unmanned systems, cybersecurity and intelligence. While pursuing these objectives, our teams have also kept a tight focus on disciplined productive operations to ensure continued responsiveness in a tough environment.

Our portfolio of proven, reliable and affordable systems is working to our advantage in this current defense market as evidenced by the recent agreement reached with the Indian Air Force for 10 C-17s and the pending order in Saudi Arabia for F-15s, Apaches and other systems.

Continued innovation, strong execution and productivity across the vast majority of our programs and our international presence are sources of strength for all of Boeing in this current business environment. The commercial and defense and security markets we serve remain large and are growing in the aggregate. And we are making important progress on the strategies we're pursuing.

Turning to the second quarter highlights on Slide 3. Core operational performance was excellent during the quarter as both of our major businesses recorded double-digit margins. Commercial Airplanes generated strong operating results as production and services programs continue to make productivity gains. Increased deliveries also contributed to the positive quarter as both the 777 and 767 models transitioned to their previously announced higher production rates.

Our commercial development programs are substantially complete with their flight test activities and are transitioning into the final stages of the certification process. Barring any last-minute issues that can't be resolved for some reason, both the 787 and the 747-8 freighter are on track for first deliveries later in the third quarter. On the 787, we're working closely with our customers to prepare for entry into service.

Earlier this month, we successfully concluded service-ready operational validation with our launch customer ANA where the 787 experienced simulated day-to-day airline operations such as maintenance, servicing and flight crew operations. We are also in the final phases of ETOPS and F&R test for the Rolls-Royce engine and expect certification before the end of August.

We continue to work with our internal and external partners on improving the condition of assembly. Earlier this month, we adjusted component delivery schedules to keep the production flow in balance and minimize out-of-sequence work moving into final assembly. We will continue to take a deliberate and disciplined approach as the program progresses through the production ramp-up plan. We are currently operating at 2 per month production rate in Everett and are prepared to increase to 2.5 per month later this year.

Boeing South Carolina is progressing to plan as production on the first 787 begins this quarter and our new final assembly building. First delivery out of Charleston is expected to take place in 2012. The change in corporation process on airplanes already built is also progressing well. We are using a modification line approach and leveraging enterprise resources in both Everett and San Antonio to address the orderly and timely completion of this statement of work.

Defense, Space & Security also generated strong operating results for the quarter delivering 29 military aircraft and 1 satellite. New business efforts also advanced in addition to the agreement reached with India's Ministry of Defence for the 10 C-17s, the Commonwealth of Australia signed a contract to acquire their fifth C-17. During the quarter, we signed contracts with the U.S. Army for 4 additional Chinook helicopters and with U.S. Air Force for additional C-130 avionics modernization program kits and air crew training system devices. The U.S. Air Force also gained full operational status of the GPS Operational Control Segment upgrade. This keeps the GPS system operational within specified accuracy to provide secure and precise navigation around the world for military, humanitarian and commercial applications.

And in support of our repositioning strategy, our Phantom Ray unmanned aircraft completed 2 flights during the quarter, successfully demonstrating the airworthiness of this exciting new airborne system.

The current defense environment will continue to provide challenges but we remain intensely focused on executing well, reducing costs and meeting the enduring needs of our customers with a balanced portfolio of system solutions and capabilities. Total company backlog at quarter end stands at $323 billion, which provides the foundation for significant future growth.

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

James Bell

Thank you, Jim, and good morning. I'll begin with our second quarter results on Slide 4. Revenue for the quarter was $16.5 billion, up 6% from a year ago due to higher delivery volumes and mix. Net earnings were $1.25 per share, up 18% from last year, while operating margins were 9.3%. This reflects the higher revenue and strong performance across all our businesses, offsetting a $0.09 per share increase in pension expense.

Now let's move to BCA results on Slide 5. Boeing Commercial Airplanes second quarter revenue was $8.8 billion, an increase of 19% from last year, reflecting higher airplane deliveries, improved mix and continued strength in the service business. Commercial operating margins were 10.4%, reflecting the higher revenues and strong operating performance, partially offset by higher research and development expense.

During the quarter, we extended the accounting quantities on 3 of our airplane programs. The 747 was increased by 25 units, the 767 by 12 units and the 777 by 50 units. And as Jim mentioned earlier, during the quarter, we announced the 737 production rate will increase to 42 airplanes a month beginning in the first half of 2014.

The financial impact of these decisions and probable outcomes of current campaigns have been assumed in the program accounting gross margins.

Overall, the financial impact was not significant in the quarter. The benefits of volume leverage and continued productivity improvements are balanced with the competitive pricing environment and investments in tooling and production systems necessary to achieve the higher production rates.

Gross inventory for the company now includes $16.2 billion related to the 787 work in process, supplier advances, tooling and other nonrecurring costs, an increase of approximately $1.7 billion during the quarter. This balance includes over 35 airplanes that have rolled out of the factory to meet the strong market demand for this product. We expect the inventory balance to continue to grow as we ramp up production but the rate of growth will moderate as deliveries are made. As we look forward to first deliveries of the 787, we expect to disclose the initial accounting quantity and deferred production costs next quarter.

Given the tremendous success of this product in the marketplace with over 820 airplanes in backlog, the initial accounting quantity will be substantially higher than previous new program initial quantities. And while the delays and challenges faced early on in the program has contributed to higher deferred production costs and higher initial unit cost than experienced on other programs, the significant demand for this product gives us confidence that these costs will be absorbed profitably over time.

Commercial Airplane 177 gross orders during the quarter including 43, 737s and 26 777s, while 12 orders were canceled. The commercial backlog remains strong with over 3,300 airplanes valued at $262 billion.

Now let's move to Slide 6 in our Defense, Space & Security business. Boeing Defense, Space & Security reported second quarter revenues of $7.7 billion, down 4% from last year on lower volumes. Operating margins were 10.4%, reflecting strong operating performance. Boeing Military Aircraft revenues of $3.6 billion were in line with a year ago. Operating margins were 10.6%, up from a year ago, reflecting strong operating performance while last year's results were affected by an AWC charge of $46 million. Boeing Military Aircraft also includes the Defense, Space & Security's performance results of the KC-46A tanker program.

As we have previously stated we won this program by offering the best integrated solution to meet the customer needs with an aggressive yet responsible bid. That included engineering and manufacturing development and production of 179 tankers over the next 17 years. Our cost estimate has not changed as we submitted the final build and the contract is not in a forward-loss position. The fixed price incentive structure of this contract clearly incentivize [ph] us to explore ways to improve cost performance. We continue to expect this program to be profitable over time, while providing the best value for the war fighter and American taxpayers.

Network & Space Systems revenues of $2.1 billion were down from last year due to funding reduction in Brigade Combat Team Modernization and lower SBInet volume. Operating margins were 9.5% with core operating performance in line with a year ago. This quarter's results also included a contract adjustment due to performance of United Launch Alliance and a gain from the sale of property.

Global Services & Support revenues of $2 billion were down slightly from last year due to current defense environment. Operating margins were 10.9%, up over last year's, due to the strong performance of integrated logistics.

Defense, Space & Security maintained a solid backlog of $61 billion, nearly 2x annual revenues.

Now let's turn to Slide 7 and our other business. Boeing Capital continues to perform well as it reported $62 million of pretax earnings in the quarter. The portfolio balance at quarter end was $4.4 billion, down on normal portfolio runoff and modest asset sales with no volume for new airplanes.

During the quarter, BCC reduced risk in its portfolio by facilitating the Hawaiian Airlines purchase of 15 717s, they previously had on operating lease. Hawaiian has also agreed to expand their 717 fleet, leasing 3 additional airplanes previously operated by Mexicana.

Now let's go to Slide 8 and our cash flow. During the quarter, we generated $1.6 billion of cash flow, reflecting strong operational performance from our production and our service programs, offset by continued investment in the development programs.

Now let's go to Slide 9. Our cash and liquidity position remains strong as we ended the quarter with $8.8 billion of cash and marketable securities. We will continue to execute our balanced cash deployment strategy and are well-positioned to support the ramp up on our development and production programs.

Now let's go to Slide 10 and our outlook. Our earnings per share guidance for 2011 has increased 10% to between $3.90 and $4.10 per share, reflecting the strong core performance across our businesses. The guidance continues to consider risks associated with our development programs and the competitive environment across both Commercial and Defense markets.

Revenue guidance for the year remains unchanged at between $68 billion and $71 billion. We now expect Commercial Airplanes to deliver between

485 and 495 airplanes during the year with a combined 20 to 30 787s and 747-8 deliveries weighted more towards 747-8.

Commercial Airplane revenues remained at between $36 billion and $38 billion for the year as improved service revenues is offsetting the lower forecasted deliveries. Commercial operating margin guidance has been increased and is now expected to between 8% and 8.5%, reflecting the strong performance on production and service programs and the lower planned development program deliveries.

We expect commercial operating margins during the second half to be lower than the first half driven by dilutions from the 787 and 747-8 deliveries and higher fleet support costs, somewhat offset by lower research and development expense and higher volume on production programs.

Defense, Space & Security revenue is narrowed to between $31.5 billion and $32.5 billion, reflecting increased clarity around the current business environment on 2011 results. Operating margins are expected to be approximately 9%, reflecting the strong performance and execution on production and development programs during the first half of the year.

Defense, Space & Security operating margins during the second half will be lower than the first half driven by deliveries of AWCs and international tankers with lower margins.

We continue to expect operating cash flow for the year to be greater than $2.5 billion in 2011, research and development expense to be between $3.7 billion and $3.9 billion. Capital expenditures in 2011 are now expected to be approximately $2 billion, reduced from approximately $2.3 billion as some expenditures have shifted into 2012.

We continue to expect other segment expense for the year to be approximately $250 million and unallocated expenses to be about $800 million. The effective tax rate forecast for the year is unchanged at approximately 34%.

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

W. McNerney

Thanks, James. This is clearly an important year for Boeing. We remain focused on completing our development programs and getting these new and efficient products into the hands of our customers. At the same time, we are working in a very disciplined manner to increase commercial production rates and execute our Defense, Space & Security strategy, all aimed at meeting the marketplace demands. With a good start to the year, based on our continued focus on productivity improvements, cash management and disciplined execution, we are on track for a strong 2011 and well-positioned to deliver value to our stakeholders in the years ahead.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Rob Spingarn with Credit Suisse.

Robert Spingarn - Crédit Suisse AG

I'd like to ask a comprehensive question on the 737 re-engine, and so it is a multiple part but I think it's important. Knowing that you haven't launched the aircraft yet, I suspect there's still some detail framework around it in order to -- since it was the key, I think, to the American win. So could you add some more color on the following items. First, the configuration, is this an engines-only exercise to mitigate cost? And how should we think about the R&D profile and CFM's share of that profile? And then what are your market expectations for this model, in particular for the near-term domestic competitions? And then finally, if you could clarify American's comment that it doesn't expect to receive delivery of this model until 2018, suggesting that it is not the launch operator while it may be the launch customer.

W. McNerney

Well, let's see. I'll start at the beginning. As I may -- as I said in my comments, because I anticipate that there may be more than one question on this, so I'll try to sweep a number of these in. As most of you know, as I said in my remarks, we spent the better part of the last year or 18 months pushing hard on both options. And as the new small airplane largely a technical and production question, re-engine, largely a marketplace acceptance question because the do-ability of it technically is less costly and has less risk. I think what we've seen over the last, I would say over the last 2 to 3 months, we've seen the marketplace assessment pushing more for the re-engined option. We've also been somewhat more mindful of the risks associated with getting a massive new production system up on an all-new airplane by 2019, which doesn't suggest we couldn't do it but there is more risk as you get deeper into it than perhaps we appreciated at the beginning of the assessment. You combine these 2 things and you get to a re-engine decision. And just to bear on one part of your question, it is largely about the engine. The configuration that we're looking at is that there will be some systemic impact on parts of the airframe. But I think I would characterize our strategy as to minimize those while still achieving the kinds of operating efficiency, cash-on-cash and performance goals that I mentioned in my talk. I think that's one advantage of this option quite frankly is that we do have confidence that CFM can produce the engine. And we see very manageable risk on incorporating it into, and integrating it, into the airframe. So again, and we've been studying this for awhile, so this didn't occur to us a week before the American Airline competition. This is something -- and I would characterize the American Airlines' deal as part of a much broader voice of the marketplace that it is very highly valuing efficiency today versus more efficiency tomorrow. And you know the environment they're operating in and perhaps -- and we've always said that the last thing we would do is do an all-new airplane if it put a lot of market share at risk in the short and medium term. And that which gets to the question of would the marketplace wait for the perfect solution further down the road or not? And so mix that all together and that's where we ended up. You had one specific American Airline campaign question and I've lost it.

Robert Spingarn - Crédit Suisse AG

That Jim and the R&D profile perhaps from James.

W. McNerney

Yes, okay. Yes, James, you can talk to the R&D profile which is very manageable, okay. The 2018 is less a function of when we can get the airplane done. And more a function of when American Airlines needed the plane.

James Bell

On R&D, Rob, obviously, a derivative airplane is a lot less expensive, a lot less risk associated with than an all-new airplane. So we will see that the R&D impact to this will be a lot less. R&D will go down in '12 as we've told you. I think it was going down at any scenario but obviously, we will have a better opportunity to do a little better in '12 than we probably previously thought if we were doing a totally new airplane.

Robert Spingarn - Crédit Suisse AG

James, you said before that R&D on something like this is something like 10% to 15% of a new aircraft, is that fair?

James Bell

That's probably about right. Yes, about right.

Operator

Our next question is from Joe Nadol with JPMorgan.

Joseph Nadol - JP Morgan Chase & Co

I'd like to dig into pricing a little bit on the RE to the degree you're willing to share anything. Airbus has said in the past that they are going to get and are getting a multimillion dollar premium for the NEO than they were for the A320 classic. And I'm wondering if you can say, stand today and say that a part of your business model and you will demand a premium for your aircraft? And then the second part of this is with that in mind, as we look out beyond the next few years in the 737 but really into the middle part of the decade, how sustainable do you think those fantastic margins are just as you put together the business case?

W. McNerney

Well, I think there's no question that we will be delivering significant productivity to the airlines with the re-engined product. I think the fuel efficiency is, and this is fairly conservative isn't it, in the 10% to 12% range, operating cost improvements are also significant. So an airline in a perfect world would be willing to pay for that. And we expect to capture a large part of the value in the pricing. Obviously -- and that's our plan -- obviously, the competitive element, campaign to campaign, can get in the way of that. And that's reality, but that's another reason I think to take -- to find a sweet spot of a lot of value but with manageable financial and technical risk. And that's the approach we've taken. But we expect -- we plan on it and we expect to get value. You're right, Joe, that we are at a, I don't want to say high watermark but I want to say pretty robust level now that we've been producing this plane for a long time. And I think those margins are sustainable.

Operator

And next we'll go to Ron Epstein with Bank of America Merrill Lynch.

Ronald Epstein - BofA Merrill Lynch

Sorry to keep beating on the 737 horse, but kind of back to that. I think I understand why the 737 re-engining decision was made, but I guess it's not clear to me how it was in that time frame. I mean, can you speak to what is the broader strategy for Boeing in the narrowbody market? By doing the re-engining, you presumably aren't going to do the new airplane, which was presumably going to be bigger. So how do you solve the -- when you had a bigger narrowbody problem with this and it just seems like it was done kind of last minute under duress in a campaign. Can you speak to that?

W. McNerney

Yes. I mean, I do understand where that question comes from, I think. But I do want to emphasize again that we have been studying the re-engine option to the same degree that we've been studying a new airplane option for the last year or more. So this was not something that we sidled up to at the last minute. Admittedly though, Ron, and our view of the marketplace changed over the last 3 months, I would say. And as I said in my -- in answer to the last question, I think the significant economics that we can deliver with re-engine are more highly valued over the next 5 to 7 years than even better economics after that point. And this is in-depth discussion with customers and one of which was American Airlines. But believe me, that was not the only customer we talked to. And that we also validated that the re-engine could deliver the kind of numbers I alluded to earlier. You wrapped that all -- that combined with the not having all the answers we wanted on the production system to support an all-new airplane in hand, I think that -- so the technical risk kind of moved to the right and the marketplace moved to the left, if I can phrase it that way. And that's why we made the call we did.

Ronald Epstein - BofA Merrill Lynch

Okay, and if I may, just one follow-on on American. It's become clear Airbus had used their balance sheet to close the deal with American. I think they're going to be leasing them a bunch of airplanes. Is Boeing Capital part of the American deal or not? I mean, how much did you have to use, the Boeing balance sheet, to close the piece of the deal with American that you did?

W. McNerney

Well, I think American's announcement said that both of us played significant roles in the financing. Obviously, we provided some lease back-stop financing for this transaction. We anticipate though that as we have in most cases over the years, that we'll be able to work with partners to offload parts of it, the extent of which we have to take it, significant parts of it that's yet to be discovered, but we have some -- we have a high degree of confidence there. And I can say for us, I mean, Airbus will have to speak for themselves, but I can say for us the commitments we made are very manageable within the context of our overall financial strength. And so we are very comfortable with it.

Operator

Our next question is from Joe Campbell with Barclays Capital.

Carter Copeland - Barclays Capital

It's actually for Carter Copeland for Joe Campbell. Just quick question, Jim and James, I want to revisit the comments you made about the tanker. You said that the program was not in a forward loss but the press reports indicate that you've informed the customer about overruns. So nothing changed in your estimates but your overrunning as the press reports suggest, does this mean you're always planning on overrunning or how do we square that commentary?

James Bell

I think first and foremost there aren't an overrun on the program. Because if we were overrunning it, we would have a forward loss that we would have to take. I think where the question gets in is between target cost and the total value of the contract. We had always bid this contract thinking that on the EMD phase, it would be a very low profitability or breakeven and that the profit would be generated as we started producing the tankers, the 179. And so nothing's changed from that philosophy, nothing's changed from our bid. I think what you're hearing is that it's the target versus the ceiling.

Carter Copeland - Barclays Capital

No, they're reporting, James, that you have informed the Air Force that you are will be over ceiling, is that incorrect?

James Bell

Ceiling being the target you're talking? We're not gonna be able to contact [indiscernible]

Carter Copeland - Barclays Capital

No, over ceiling. The ceiling being the point at which the Air Force says no further responsibilities for the overruns.

James Bell

No. I think what you're referring to are the period expenses that are absolutely allocable to the contract but are paid on a quarterly basis. Those are inventoried. And we have assumed that other parts of Dennis' [ph] business will accommodate those as those are incurred and are charged off here on a current expense base.

Carter Copeland - Barclays Capital

So it is the case that you've told the Air Force that you're going to be over ceiling. But for our purposes -- so the Air Force purposes you're going to lose money but for our purposes, you're going to break even?

James Bell

On the EMD phase only is what we're assuming today. But the incentive nature of the contract, obviously, we'll be working hard to improve that cost performance over time.

Operator

Our next question is from Doug Harned with Sanford Bernstein.

Douglas Harned - Sanford C. Bernstein & Co., Inc.

I'd like to go through the 787 right now because there's been a lot of news lately and I'd just like to understand where we are on a number of things, such as there've been press reports regarding the stoppage of the line of the 787, about a slowdown in your ability to take the production rate up on the airplane. There was one about delays in the 787-9 to 2014. And could you describe where these things stand right now because there's a lot of information out there and it's very difficult to tell what's accurate and what's not?

W. McNerney

Yes. Listen, Doug, our projections as to the ramp certification and deliveries are the same, okay? We have not changed any of those. So just as a framework for the answer I'm about to give you, we did take a 20-day pause to rebalance the line, all within that guidance. I view that as good news, okay? I mean, the facts are we have broad visibility across our supply chain now and when we need to take a pause to rebalance it, we do it early. We get rebalanced and we're almost done with this 20-day rebalance we've done now. The only thing worse than a rebalance is to not rebalance. You pay for it in cost and schedule in a big way later. So we're pretty agile now to rebalance quickly and it will be a positive over the life of this program and through the ramp that we're accomplishing because a couple of places got out of sequence and a couple of places got -- didn't meet their objectives on completed work. And that's all healing up now. And hey, and listen, we could it again sometime over the next year or so. We'd have to get in balance. That's how you have to manage this kind of supply chain. So that's, and I think we've been fairly open about it, this 20-day thing. I don't know where this 787-9 rumor. I guess there was -- I guess in New Zealand there was a -- just like in maybe the same press that you're looking at, there was a comment that there was a worry that the 787-9 was pushed into 2014. I'm not sure where that came from. But our ramp plans on the 787-9 are in place, it's going well. As you know, we have the surge line in Everett as protection should we get into a stutter step mode there. Surge line is also there by design to protect against any hiccups in Charleston as we ramp up. That's the whole strategy. And right now, our projections have us in good shape. So that's -- if you're looking for something else in answer, ask specifically, I'll see what I can do.

Douglas Harned - Sanford C. Bernstein & Co., Inc.

Well, but you have -- haven't you taken down your projection for at least for 2011, you've taken down the top end of your 87 and 47-8 deliveries?

W. McNerney

Yes.

Douglas Harned - Sanford C. Bernstein & Co., Inc.

I mean, are you seeing something here that's slowing a little bit or is this just a minor change?

W. McNerney

Well, it's a -- I think, we're 25 to 30. I would view it -- I would characterize it, Doug, as a narrowing of the projection and holding on to the base projection. But it's well within the guidance that we started the year with.

Douglas Harned - Sanford C. Bernstein & Co., Inc.

So it doesn't represent any new issues on your side whether it's with respect to production, supplier issues and so forth?

W. McNerney

I think we always anticipated that we'd have some rejiggering and some rebalancing of the line. It's just the nature of this, of ramping up a supply chain like this. And I think the extent to which you've seen it, it was -- well, not specifically anticipated, it was in general anticipated.

Operator

And next, we'll go to Howard Rubel with Jefferies.

Howard Rubel - Jefferies & Company, Inc.

Just to follow a little bit more on 78. I mean one of the things I would say we've died a cut, whatever, we've suffered a number of, let's say, pauses, delays, oops's on the 78. And the reality is we can allow for some of these misses but it still seems unrealistic that you're going to get to your ramp rate given all of what I'd say these pauses. And so could you give us a little bit more color as to why you could get, Jim, to some of these higher rates? I mean, all of these -- the airplanes are later than I think you would have thought at the beginning of the year, especially if you wanted to target towards the mid-end of that range.

W. McNerney

Well, listen, the reason we feel that way is that data suggests that it's accomplishable, all right? And one of the components of that assessment. The components of that assessment are the healing up and the ability to ramp further of our major supplier partners. We're in a pause right now to get that healed up. And as I said before, that could happen again and not threaten the overall ramp rate, all right? It helps your ability to get there. Another component is the modification work being done on the airplanes that are already built. We've got a very systematic way to go about it, factory within a factory in Everett, some help in San Antonio. The statement of work is clearly understood. Now that we're at the very end of the flight test program, there is the additional engineering input, which drives some of that work, is going to go away. So that really becomes a known statement of work, just get through it, is it manned adequately, resourced adequately? We think we've answered those questions. So is it a challenging ramp? Yes. Do we think we can do it? Yes. And it's because we analyzed the data and tried to understand the amount of work and project we can make it.

Howard Rubel - Jefferies & Company, Inc.

Jim, just related to that and then I'm done. Is the R&D -- the R&D spend so far is averaging closer to $4 billion for the year rather than sort of where you -- the range you've targeted. I would sort of think the low end of that range is probably on the highly unlikely unless there's a fairly sharp completion on both the 78 and 74 in the very near term. I mean, can you help me with that?

James Bell

Yes, I can help you with that, Howard. We obviously are looking to see that the certification effort is over at the end of August and we're going to see the engineers get moved off of that program. And so we still think that given what we see and what we know and if it goes as planned, that we'll get into the guidance range on R&D.

Operator

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

Cai Von Rumohr - Cowen and Company, LLC

A follow-up on the 737. You won't -- you say you need board approval, but do you look to kind of take additional commitments for the plane before that board approval if Delta, United, Southwest, other candidates come forward? And secondly, I was a little surprised by your statement that R&D would be down more next year as a result of the decision to go derivative versus new because derivative basically delivers earlier versus all-new. My assumption was you weren't going to really [indiscernible] until late 2013. So how come the R&D is less?

James Bell

I didn't say that. I said R&D will still come down next year. I didn't say that.

Cai Von Rumohr - Cowen and Company, LLC

Would it be down more [indiscernible]

James Bell

It will still come down next year. What I did say was that the expenditure profile for the development effort now that we are looking more at a re-engine versus a new airplane will be less. But R&D will come down about the same as we'd always thought.

Cai Von Rumohr - Cowen and Company, LLC

So basically, there's no difference between the 2 in terms of the R&D next year?

James Bell

Next year, correct.

Cai Von Rumohr - Cowen and Company, LLC

Okay. And then the other question, you don't commit to the board until this fall. But should we expect additional commitments between here and there as other airlines make decisions?

W. McNerney

Yes. I mean, obviously the board is aware of the direction we're taking, Cai. I think you never want to outrun your board though in terms of getting the formal approval you need. And I would expect that we would be receiving that soon. And we're working through that now. And it's just a matter of, as I mentioned, formalizing the final configuration and therefore documenting the business case and crossing all the Ts and dotting all the Is and giving the board an absolutely thorough look at what the impact will be. But we're going to keep talking to customers.

Operator

Our next question is from Heidi Wood with Morgan Stanley.

Heidi Wood - Morgan Stanley

Question on the 737. Last year, you walked away from a Ryanair deal that we all applauded you because you weren't going to do uncompetitive deals. And this year, the American Ts and Cs looked significantly less attractive. Can you, Jim, walk us through why the deal terms are becoming so unappealing in a time when demand for the product is so high? And help us think about why AMR isn't a harbinger price wars, again considering United, Delta, Southwest and Ryanair. Talk about how you retain profitability as these planes deliver?

W. McNerney

Yes, I think the -- I don't know how much you know about the Ryanair deal, Heidi. It wouldn't surprise me if you know more than I think you do. Having said that, walking away from the Ryanair deal last year was the right thing to do. It didn't -- that business case did not close for us or for Ryanair, so it was one of those things that didn't make sense. This one does. I would say that obviously, the American competition did get pretty heated as Airbus who hadn't sold planes there in a number of years wanted to come in and get market share and did get some market share there. And it was pretty aggressively priced, but not irresponsibly priced from our standpoint. Airbus can speak for themselves. What I can tell you is that this is a very profitable deal for us and for American. So it's one these good deals for both sides. So I'm not uncomfortable with the pricing level there. But I think the competitive dynamics were a little more intense there because of the early Airbus move.

Operator

And we'll go to Ken Herbert with Wedbush Securities.

Kenneth Herbert - Wedbush Securities Inc.

Just again a follow-on question on the 737. You've talked about narrowbody rates now a few getting up to the 50 to 60 range. As you think about the cost profile of this program, how should we think about understanding, considering some of the limitations up in Renton, how narrowbody production may evolve to potentially support obviously some of your -- maintain some of the margin while at the same time looking at the kind of rates you've thrown out there for the next 5 to 10 years?

W. McNerney

Yes. I mean, we haven't made the final decision where we're going to produce the re-engined airplane. Your question implies though that after the 42 a month, we do run into some challenges if Renton were the choice, some capital expenditures there to increase it. But we have other options and we're going to study them all as we think it through. But demand could easily be that high in the time frame we're talking about. And good news is we have options.

Kenneth Herbert - Wedbush Securities Inc.

Great. And so it's fair to say that you got options obviously. To what extent could potentially South Carolina step in and meet some of that, meet some of the demand for you?

W. McNerney

Well, it would depend as we studied it, how competitive they could be as compared to Renton or compared to another site. I think we would study it all and come up with a decision that makes the most sense for our customers and the company.

Operator

And next, we go to Rob Stallard with RBC Capital Markets.

Robert Stallard - RBC Capital Markets, LLC

Jim, we've obviously heard a lot to talk about the re-engining. But I was wondering if you could give us an idea of what you think the demand environment is there out there for this aircraft? What sort of level of launch orders we could be expecting over the next 6 to 12 months and whether you think your current market share can now be held at this level?

W. McNerney

We believe our current market share can be held. We think there is robust demand for the re-engined airplane. I mean, I think the operating economics, we're a bit of a sweet spot with the engine with GE and Snecma in the sense that some of the technology insertion plans they have peaks at a good time in terms of engine performance. And given our strategy to incorporate the new technology efficiently, yet minimize the systemic impact on other parts of the airplane, I think it presents kind of a low-risk, low-capital way to access this market growth as opposed to a much longer cycle, much more expensive new small airplane. But the demand is there. I'm convinced of it, particularly in the developing world as well as coming on strong in the United States.

Operator

And we'll go to David Strauss with UBS.

David Strauss - UBS Investment Bank

Jim, following on that question, you talked about the re-engined airplane, some of the operating economics kind of in absolute terms. Can you talk about what kind of operating economics you think this airplane will have relative to the NEO? I think you've spoken in the past that you actually think that on a cash operating cost per seat basis that the NG actually has, still has better economics than the NEO. And as a follow-up question, can you give us a time frame when you would expect to make a decision on the exact fan size that's going to go on, that you put under the wing of re-engined airplane?

W. McNerney

Yes. I think, as to the first part of your question, let me just get into the end zone quickly. Based on the data we've got and the customer data we've got, we believe our re-engined airplane will be -- have roughly the same margin of capability over the NEO as our current airplane has over the current A330, which is sort of a 2%, 3%, 4% depending on the mission, depending on the model cash-on-cash gap. And so we plan on based on what we know now of retaining that gap is one way to think about it. The fan size, we have studied a number of options on the fan size very thoroughly. We've also studied some elements of core configuration, too. So trust me when I tell you that this has not gone unstudied. We are centering now the 2 teams on a favored configuration that we've been working on. And it would be premature to mention right now what it is until we get -- until have we got the approval, and customers know specifically about it. But I think we're in pretty good shape, that we have centered on an option that makes sense to us.

Operator

Our next question is from Noah Poponak with Goldman Sachs.

Noah Poponak - Goldman Sachs Group Inc.

I want to ask a multipart question on margins. So first, in the quarter, was there anything onetime in either BCA or BDS? Secondly, the BCA new full year guidance implies you do 8 even in the back half versus 10-4 in the second quarter. You mentioned conservatism around 78 and 747-8. In the past you've actually quantified specific contingency. If you have that, that's identifiable and quantifiable, I would love to hear that. And then as we look longer term beyond '11, James, when you think about the mix of ramping your profitable legacy programs, the R&D tail end and then the offset of the dilution from 78 and 747-8. Can you speak to the degree of margin expansion you think you can achieve at BCA in the next couple of years?

James Bell

So on your first part of your question, the onetimers that we had in the quarter really related to BDS. It was the, what I mentioned earlier, the sale of property and then also we had a closeout of the operating contract at ULA and gave them a little more favorable performance. So I think, when you take that out, you're about at the run rate we see them going forward. With BD -- with BCA, it's more driven by a number of things. First of all, we're going to have a pretty significant impact to margins associated with the dilution as we start delivering 787s and 747-8. That will be somewhat offset by reduced R&D, but we will also have an increase in the fleet support effort associated with that. So those 2 will balance. So you are going to see margins in the second half of the year mitigate in BCA. And I think we'll come in at our total year at what you see at the guidance range. Going forward, as we see ramp up on all these programs, what we think is going to happen, particularly on the current production programs and their level of maturity, what we'd like to see happen is to sustain the kind of profitability we have today. And as Jim just talked about, we do have pricing pressure that we are assuming in the margins today, and we talked about that earlier, that there is going to be some pricing pressure and we understand that. So the plan would be going forward is to sustain the margins. Obviously, we'll have less R&D next year but we will still have some in-service costs associated with fleet support with the 87. And then we'll start up on the new development program on re-engine. So we're going to get to -- we'll have to figure out next year what our operating R&D rate is going forward and we'll give you that update once we know it. But I think if you look at the gross margins our program, the strategy is to sustain them. Not to expect that we're going to have a significant amount of the increase except for, obviously, the development programs that as they ramp up we would expect their margin performance from them.

Noah Poponak - Goldman Sachs Group Inc.

Can I ask you to specifically quantify the BDS items in the quarter and then also the fleet support in -- what it is in '11, what you think it is in '12?

James Bell

I think I did quantify -- I didn't quantify, just told you what it was. It's about $40 million for the -- for about both. And fleet support, we don't specify. We will tell you what the total is, we don't specify by program.

Operator

And that will be from Sam Pearlstein with Wells Fargo.

Samuel Pearlstein - Wells Fargo Securities, LLC

I did want to ask a question somewhat related to the 737 but more broadly, which is how you think about the prioritization going forward and a 777 refresh and even the thought of a new single-aisle airplane just because my thought was part of the appeal of the 737 new plane was that you would not go so long in between all-new aircraft developments and run into the problems you've had on the 787 given that gap from the 777? And if do a re-engining forward, doesn't it mean the next all-new airplane could potentially be 10 years away once again?

W. McNerney

I think the -- you're right. There's a balance between the risks associated with the various developments, which tends to favor modification and higher risk developments on new airplanes which tend to engage more of the workforce. And we're very mindful of that. I think where the re-engine leaves us is -- but first we got to execute that. I mean, that is -- I characterize it as lower risk, but none of these things are low, low risk. And so there's going to be a significant amount of engineering talent, GE, Snecma and here to get that done properly. We will probably turn more quickly to some significant modification on the 777, which will involve a lot of engagement of our workforce. I would say the 2 projects after the re-engine that we have to sort out would be -10 on the 787, which is a further stretch of that airplane and then some degree of refurbishment as I just said on the 777, which could range from small to large. And we're sort of waiting to see what the A350-1000 is or isn't to make that judgment. I think you always want to plan conservatively, so we're planning on the modification being somewhat significant. And those kinds of modifications are almost the same as new airplanes in terms of the kind of people you need to employ in the scope of the work. And then there will be, obviously, as we get into the next decade, the choice on the all-new narrowbody versus an all-new wide-body. But there'll be a lot of work in the meantime to keep our folks busy.

Samuel Pearlstein - Wells Fargo Securities, LLC

And does that mean that the R&D profile doesn't fall over the next say 5-plus years as much as it might have under the prior thinking?

W. McNerney

I think our take is that it will, at least in our minds -- and I'm mindful that we haven't given you guidance, okay? So I'm sort of -- except the directional guidance over the next year or so. But the R&D profile has not changed significantly based on the reprioritization of the re-engine versus the NSA. There are plenty of things for our people to do and I think the net impact would be the upfronting of some wide-body work and pushing out of some narrowbody work given that we're doing a smaller scope project versus a bigger scope project on the NSA. I think that -- and so therefore -- and plus there's some advance work . I mean, you mentioned the 787 and the struggles we had with that development. That was as much about not getting technology that we wanted to inject into the next airplane matured properly as it was about some issues on supply chain execution. So we're going to be doing more work on technical maturation, just fundamental work. And when you at that all up, our LRBP hasn't changed in terms of R&D.

Operator

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

Tom Downey

Thank you, we have a few remaining minutes for questions for Jim and James with the media. If you have any questions after the session ends, please call our Media Relations team at (312) 544-2002. Operator, we're ready for the first question and in the interest of time, we ask that you to limit everyone to just one question please.

Operator

And we have the line of Josh Freed with the Associated Press.

Joshua Freed - The Associated Press

Can you say to what extent the NLRB proceedings are a factor or affect your thinking in deciding where to do additional narrowbody production down the road?

W. McNerney

Well, I think the NLRB case, we remain highly confident that at the end of the day, that we will win this case. And that's obviously a legal judgment. It will take a lot of twists and turns and it will probably have to get in, in the worst-case, get in to the federal courts for the judgment to be made. So given the confidence that we are doing the right thing, not only for our company but within the law, we're continuing to invest there. We're continuing to hire new people as we grow our company and as we grow exports for this country and provide employment. We're going to do that in South Carolina. And depending upon how it goes, we'll have to see how competitive the factory is. I mean, we're going to invest to make it as competitive as we can. But I think it's fair to say that just getting the 87 done over the next few years is a big challenge. And we are going to succeed, but over the next few years, I don't want to dilute the effort down there with other new airplanes right away. So it could be an option down the road on re-engine. But it's not at the top of the list right now.

Joshua Freed - The Associated Press

Okay, so does -- but how about in terms of the impact of the proceeding on the decision itself? I mean, is that something sort of keeping your options open as a means...

W. McNerney

0. 0 impact. Sorry, I answered the wrong -- I answered it rather eloquently, but I answered the wrong question.

Joshua Freed - The Associated Press

It was a great answer, it was just fine.

W. McNerney

0 is the answer.

Operator

And next, we go to Susanna Ray with Bloomberg News.

Susanna Ray - Bloomberg

I have 2 questions, I hope that's okay. First of all, I'm wondering if you can elaborate a bit on what the impacts of the 787 production growth were on your re-engining decision because I did note, for example, that the most recent production pause that you have made was about the same time frame as when you decided to re-engine the 37 instead of build a new plane. And then my second question in that 747 certification. I know the 87, you said the end of August, and I'm wondering if that's true for the 47 as well? If they are still neck and neck or if the 87 has now pulled ahead and if so why that is?

W. McNerney

No, they're both neck and neck, both by the end of August is what the current data says. As to your first, I think you said, you may be on a cell phone so I -- there really is no connection between the 787 supply chain ramp up and our 737 production ramp up programs. So any [indiscernible]

Susanna Ray - Bloomberg

No, the re-engining decision.

W. McNerney

No connection. Different marketplaces, different products. Our decision, as I had mentioned, was based on the -- on the 737 was based on a combination of technical and marketplace assessments and had nothing to do with the 787 in our minds.

Operator

And we'll go to Dominic Gates with the Seattle Times.

Dominic Gates - Seattle Times

My question for Jim, I'm just a little surprised to hear you opening up this option, you need to produce 50 to 60 or you hope to produce 50 to 60 narrowbodies by the end of the decade per month. And so you're now talking about possibly not doing the re-engine in Renton. That just seems such a surprising thing to bring up. You've got your most efficient line of all your aircraft programs. You've actually got a third line which does have the complication of have being an ITAR [ph] Line. But it seems like in Renton, you do have all the options you could possibly want to make that airplane there. So I mean, are you seriously considering doing the re-engine somewhere else? Like Charleston doesn't even do metal airplanes. Or is it just a matter of wanting to keep your options open? And what's the effect on the moral of your Renton workforce when you raised this what I would have to call a specter of putting work elsewhere?

W. McNerney

Well, listen, I mean, Renton is one of the great aerospace factories in the world, okay? So obviously, the idea of putting a lot of work, a lot of narrowbodies there is very attractive. I think the spirit in which I was answering the question was, until we have sorted out the milestones associated with the ramp up, the degree to which we have to modify the airplane, there would be major investments in Renton beyond the currently planned production rates. Until we sort that all out, we can't confirm where we're going to put it precisely. But would putting it in Renton be a good option? Yes.

Dominic Gates - Seattle Times

But would you say it's -- I mean, all your supply chain converges in Renton, you've got complete fuselages coming into Renton, to put it somewhere else means having Wichita send it wherever. It seems like more investment to do it elsewhere, would you think that Renton is the most likely place?

W. McNerney

Well, listen, I think until we study it all, obviously Renton has a strong case. But again, Dominic, there is significant investment beyond the -- that we'd have to make some place beyond the current rates that we're contemplating. And until we understand exactly what the plan will be and at what rate we have to build it, I think we have to study that and figure it out.

Operator

And we go to Molly McMillin with The Wichita Eagle.

Molly McMillin

I just had a quick question. I'm wondering, are you seeing any continuing problems on the 787 as far as structural problems on the wing box or any place that like that? There's kind of a rumor and I just wanted to check it out.

W. McNerney

No. That's a fair question. We are seeing no structural issues. I think the issues that we're working through have to do with the assembly of the airplane and the manufacturing of it. And we're going through that in a very rigorous and disciplined way to get to where we need to get to. But structural, they were largely through flight test and through static test which surfaces -- which is designed to surface those kinds of issues. And we're getting to the very end of that and there is no major or minor structural issues that I know of.

Operator

And we go to Jeremy Lemer with the Financial Times.

Jeremy Lemer - Financial Times

You mentioned the 20-day pause that you've taken on the 787 and you mentioned that there was some slack in the schedule. How many more pauses do you think you're able to accommodate within the existing ramp schedule for the 787 without having to push back any parts of that schedule? And how did your suppliers respond to those, that pause? Were they left holding some inventory that you haven't paid them for yet? What was the impact there?

W. McNerney

Well, I think those that needed the time reacted favorably to it and those that were ready to go -- that's why we went to a planned pause so that people could manage their inventory as well as they could. But it's -- I don't know that there will be more pauses. I think one of the judgments you make with the pause is that you are in effect accelerating the schedule when compared with the case of not doing the pause, okay? And so it's not as simple as adding 20 days to whatever schedule you were on. It's a matter of getting rid of significantly more risk by adding 20 days and we're getting closer to having the balance we need.

Operator

And next we go to Glenn Farley with King Television.

Glenn Farley

So to go back on some of the analysts' questions about the new small airplane, I mean, you've done all this work to it, the considerable amount of work from my understanding, not just by what you said today but what we've heard from the engineering team and others over the last year or so. So essentially what happens to it? Does it just go off into space someplace, or is it a real viable option to be picked up maybe 5 or 10 years down the road?

W. McNerney

Yes, it's more of the latter. I mean, I think a lot of the work, which was developmental work, I mean we're not, we weren't to the point of bending metal or forming composite or anything like that. It was mostly advance kind of work. And that work will be very valuable when, and will be updated based on experience we've got with the 787 because a lot of the technologies came out of the 787 development and there'll be -- and that's often the way it works in the aerospace world. It'll be relooked at and advanced and somewhere down the road after we re-engine, an all-new airplane will become the right thing to do. And we'll be better off at that point because we've done the work we've done over the last 1.5 years than we would be have we not done it.

Operator

And next we go to Jon Ostrower with Flight Global.

Jon Ostrower

Can you speak to your credibility and the company's credibility on the current 787 delivery projections? Over the last several years, we've really seen the forecasts that are really quite divergent from reality. Air New Zealand's CFO said last week that he expects the first 787-9 an undefined point in 2014. What kind of assurances are you giving your stakeholders about your latest plan?

W. McNerney

Well, I mean, I think it's -- the way I look at it is the closer we get to the end of certification, the better we get the production system in alignment, the better we are able to predict and reaffirm the schedules. Are there some risks? Yes. This is not an easy business to always get precisely correct as you have noted from time to time. So the 787-9, just to refresh, the 787-9, our guidance is end of '13, okay? That's a delivery. Air New Zealand is one of the very first customers to get the 787-9. And it takes a while to induct these things in the service, so I don't know if whether there's a disconnect between when we deliver it and the time he takes to get in into the fleet or not. I don't know what he meant by that. But we have not changed our schedule.

Jon Ostrower

And in terms of the 737, Airbus is offering their 2 new engine choices as options. Is the LEAP-X going to be an option for the 737 or are you expecting a full production changeover?

W. McNerney

I'm sorry, are you saying -- are you asking whether we're going to have 2 options on the airplane?

Jon Ostrower

No. Is the customer selection for to go with the re-engined 737, is that going to be a full switchover in production or are you expecting that choice as an option and also in conjunction with today's next-generation 737?

W. McNerney

That's one of the things we have to sort out as we go through the timing of the requirement of our customers. It will be obviously an option and we'll dovetail it into the schedule as it makes sense, both to us and our customers. But we don't have that question finally answered yet.

Operator

And that will be from Ted Reed with TheStreet.

Ted Reed - TheStreet.com

I have questions about the American order. The first one is there's been suggestion in some quarters in Wall Street that American's financial situation is precarious, so I assume we can take your deal with American as showing strong confidence in American's financial future. And secondly, more importantly, Gerard Arpey have said on several occasions that the deal, the favorable deal with you and Airbus was enabled partially because American didn't file bankruptcy like its competitors did. He said our track record certainly had an influence on Boeing and Airbus. Can you speak to this? Did it have an influence and in what way did it influence the deal?

W. McNerney

Yes, sure. Yes, we have confidence in American Airlines. It's one of -- this country's and one of the world's great airlines. But they have been managing a difficult financial equation but they've been doing it well. And so I think our confidence in them is high, but also the confidence in our own hardware is high, okay? So in the event of some delays or in the event of some financial turbulence with American, we will work with them but we also have confidence that if, for some reason, they don't need the airplanes, then we'll find places to put them. I don't want to speak for them in terms of how they enable their financial equation. All I know is that we're working with them in a way that is also mindful of our financial situation and we're doing things that we think can help a good customer but not in anyway impair a very strong balance sheet that we have.

Ted Reed - TheStreet.com

But them not filing bankruptcy make them seem more reliable?

W. McNerney

It certainly speaks to the strength and focus of that management team. And I give them high marks for managing through a tough time and keeping the team with them.