

UNITED STATES OF AMERICA
BEFORE THE NATIONAL LABOR RELATIONS BOARD
REGION 19

THE BOEING COMPANY

and

INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE
WORKERS DISTRICT LODGE 751, affiliated
with
INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE
WORKERS

Case 19-CA-32431

**MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM,
OR, IN THE ALTERNATIVE, TO STRIKE THE INJUNCTIVE RELIEF
SOUGHT IN ¶ 13(A) OF THE COMPLAINT**

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INTRODUCTION

The Acting General Counsel's complaint defies more than 40 years of precedent and would effect a governmental intrusion into an American business not seen since *Youngstown Sheet & Tube v. Sawyer*, 343 U.S. 579 (1952). The complaint seeks a declaration that Boeing's decision to locate a new assembly line and supply chain for its 787 Dreamliner in the State of South Carolina outside of Boeing's existing bargaining unit violates Sections 8(a)(1) and 8(a)(3) of the NLRA, and requests as a "remedy" an order commanding Boeing "to have the Unit operate its second line of 787 Dreamliner aircraft assembly production in the State of Washington, utilizing supply lines maintained by the Unit in the Seattle, Washington, and Portland, Oregon, area facilities." Compl. ¶ 13(a). The complaint—on its face—fails to state a claim, and the remedy sought is breathtaking, legally indefensible, and profoundly unjust. The mere pendency of this complaint, and the lengthy proceedings that are scheduled to follow, cast a shadow over the future of a billion-dollar corporate investment, the lives of more than a thousand Boeing employees in South Carolina, and the economic recovery of an entire State.

Boeing respectfully asks that, under these circumstances, its argument that the complaint fails to state a claim under clearly settled Board precedents is appropriately addressed at the outset of these proceedings. In the alternative, the extraordinary and unjustified remedy proposed in ¶ 13(a) of the complaint should be struck. It is indisputably the most consequential—and destructive—remedy ever sought by an officer of the NLRB.

To begin with the remedy sought: This complaint arises out of Boeing's 2009 business decision to place a new, second 787 Dreamliner final assembly line in Charleston, South Carolina. That facility has been built; Boeing has already trained and hired more than 1,000 employees to build 787s at that facility; and the Company will begin assembling its first 787 there in a matter of weeks. The Acting General Counsel expressly seeks, in his Complaint, an

order directing Boeing to “operate” this line in Puget Sound, Washington. While the Acting General Counsel now disclaims any intent to close Boeing’s new facility in Charleston, his office previously stated that it intends to “mothball” that facility, and that, in fact, is the necessary implication of the remedy the Acting General Counsel seeks. The new Charleston facility is equipped—and the new workforce trained—specifically to build 787s, not other airplanes, and the proposed remedy would require Boeing to conduct all of its planned 787 assembly in Everett. In an immensely complex manufacturing business where production decisions require years of lead time, the complaint’s disclaimer that Boeing at some point in the future might be able to conduct different work in Charleston offers no comfort at all—either to the Company, or to its thousand new employees who would no longer have any work to do.

The proposed remedy is therefore as draconian as it is unprecedented. This is all the more extraordinary given that the complaint fails, for multiple reasons and under clearly settled and governing law, even to state a claim for the legal violations of the National Labor Relations Act it asserts. The complaint contends that Boeing’s decision to place the second line in Charleston constitutes illegal “retaliation” for the IAM’s past strikes, in violation of Section 8(a)(3) of the Act. But it is an indispensable prerequisite to such a violation that the employer’s action caused a represented employee to lose his or her job, or otherwise to suffer an adverse employment action. The Acting General Counsel’s complaint does not allege that a single current IAM member suffered such an action here, and that is because he cannot; the new facility in Charleston involves new, rather than existing, production capacity. While the complaint alleges, disingenuously and without explanation, that Boeing “transfer[ed] its second 787 Dreamliner production line of 3 planes per month” and “a sourcing supply program for its 787 Dreamliner production line” “from the Unit to its non-union site in North Charleston, South

Carolina,” Complaint ¶¶ 7(a), 8(a), the complaint’s conspicuous failure to identify an injury to an actual bargaining unit employee is telling—and fatal. Indeed, Regional Director Ahearn, who signed the Acting General Counsel’s complaint, conceded as much more than a year ago when he acknowledged that Boeing had not “moved existing work from Everett,” but rather had “plac[ed] new work in South Carolina.” Dominic Gates, *Machinists File Unfair Labor Charge Against Boeing Over Charleston*, Seattle Times, June 4, 2010.

And even if one indulged the fiction that Boeing had “transferred” 787 work from Everett to Charleston, the complaint would still fail to state a claim as a matter of law, as the Acting General Counsel has failed to allege that Boeing’s decision was motivated by anti-union animus. The only evidence the Acting General Counsel points to in his complaint to support his claim of retaliation—and his parallel Section 8(a)(1) claim that Boeing has made coercive “threats” against union employees—are certain specified public statements by Boeing’s executives and representatives. As will be shown below, these statements, which the Acting General Counsel misquotes and mischaracterizes, establish at most that Boeing considered the risk and costs of future strikes in making its decision to place its new facility in South Carolina—a consideration that the Board has previously expressly acknowledged to be “legitimate[.]” *NLRB v. Brown*, 380 U.S. 278, 283 & n.3 (1965). And, as the Acting General Counsel’s allegations of anti-union bias must fall, so, too, must his allegations of violations of Section 8(a)(1), which are predicated on the same misquoted and mischaracterized statements of Boeing officials. Those statements, accurately quoted, recount the entirely legitimate role that Boeing’s pressing need for production stability in its 787 program played in its second-line decision—and the law has been clear for 40 years that statements of historical facts cannot be construed as coercive or threatening. *See NLRB v. Gissel Packing Co.*, 395 U.S. 575, 618 (1969).

In short, the complaint not only fails to state a claim as a matter of law: it is inexplicable, both in its legal theory and in the radical remedy it seeks. And the actions of the Acting General Counsel since the filing of the complaint—including the issuance of a sweeping subpoena that on its terms calls for millions of documents—suggest the prospect of a fishing expedition and drawn-out proceedings, perhaps to find support (or a legal theory) for a violation that the complaint plainly lacks. The appropriate response to this unprecedented action by the Acting General Counsel is what this motion proposes. In the alternative, the remedy proposed at ¶ 13(a) of the complaint cannot and should not be sustained. Boeing, its employees in South Carolina and their families, and Boeing’s customers and suppliers should not have to live for months or years under the cloud of that possible remedy. It can and should be struck now.

I. BACKGROUND & FACTS

The factual background offered below recounts the facts alleged in the complaint as well as other facts necessary for context or for evaluating the proposed remedy. To the extent facts outside the complaint are discussed, it is Boeing’s position that those facts are not necessary to a determination that the complaint fails to state a claim, but rather are responsive to the court’s request for pre-hearing briefs on this subject, and to further establish the inequity of the remedy sought by the Acting General Counsel in this case.

A. The first and second final assembly lines for Boeing’s 787 Dreamliner.

The 787 Dreamliner is Boeing’s latest generation of commercial aircraft, using lightweight composite materials to create one of the most fuel-efficient, technologically-advanced passenger planes in the world. After consideration of multiple sites, including Charleston, Boeing decided in 2003 to establish its first 787 final assembly line in Everett, Washington, where Boeing builds its other twin-aisle commercial airplanes.

Since the 787 was first announced, customers have placed orders for about 850 airplanes, making it the fastest-selling plane in aviation history. Those orders have produced a backlog extending through approximately 2020. Boeing concluded that to address this overwhelming customer demand and backlog it needed to expand its 787 production capacity by establishing a second final assembly line. After extensive study of potential sites, the choice came down to Charleston, where the aft and mid-body sections of the 787 currently are constructed, and Everett, where Boeing operates the first 787 final assembly line.

B. Production stability, discussions with the IAM, and Boeing’s selection of Charleston.

Boeing’s airplane production and maintenance workers in Washington State are represented by the International Association of Machinists and Aerospace Workers, District Lodge 751 (“IAM,” “Union,” or “Charging Party”). Section 21.7 of Boeing’s collective bargaining agreement with the IAM, a provision in place for over 45 years, authorizes Boeing to “designate the work to be performed by the Company and the places where it is to be performed” without negotiating with the IAM. Ex. A. Notwithstanding Boeing’s rights under the collective bargaining agreement, Boeing invited the IAM to discuss the possible placement of the second final assembly line in Everett and Boeing’s desire to obtain, among other things, a long-term contract with a no-strike clause to provide production stability for the 787.

Boeing’s concerns with production stability are well-founded. The IAM has struck Boeing seven times at its Puget Sound facilities since 1934, four times since 1989. In 2008, the last time the IAM’s collective bargaining agreement expired, union members, including those assigned to the 787 production line, went on strike for 58 days. That strike cost Boeing \$1.8 billion in lost revenues, and damaged its reputation for reliability. For example, Virgin Blue Group CEO and Boeing customer Richard Branson described the consequences of the delay

caused by the 2008 strike as “catastrophic,” and stated that “if there’s a risk of further strikes in the future, he may not buy Boeing again.” Dominic Gates, *Boeing’s top customer predicts big production cuts*, Seattle Times, Feb. 6, 2009. Mr. Branson explained the effect the strike had on his airline because planes were not available: “It was a horrible mess that Boeing was on strike. We messed up tens of thousands of passengers over Christmas We had to buy tickets on other airlines and scramble to get seats which weren’t available.” *Id.* Boeing’s current collective bargaining agreement with the IAM expires next year.

Boeing first told the IAM that a second 787 line likely would be needed to meet customer demand as early as the summer of 2008. In June 2009, Boeing informed the IAM that a decision where to locate the second assembly line would occur by October 15, 2009. The IAM agreed to discuss the issue, and discussions began in earnest that August. Representatives of the IAM and Boeing met seven times between August 27 and October 21.

Boeing’s primary goals for the discussions were to obtain a longer-term collective bargaining agreement that restored and safeguarded Boeing’s production stability and also imposed constraints on the growth of future wage increases and benefit costs to ensure that Boeing remained economically competitive in an increasingly fierce global marketplace for commercial aircraft, in which Boeing will need to compete against not only Airbus, Boeing’s traditional rival, but new or potential overseas competitors in China, Russia, Canada, and Brazil. The IAM declined to agree to a long-term extension of the collective bargaining agreement unless Boeing would agree to extraordinary guaranteed wage and benefit increases, an assurance that all future commercial aircraft work would be placed in Everett, and a commitment that Boeing would remain neutral in future IAM organizing efforts in other parts of the country. Although Boeing officials stressed, among other things, that Boeing could not accept “neutrality”

or a “guarantee” of future work in Puget Sound, the IAM maintained those and other conditions throughout the negotiations. The negotiations concluded on October 21 after Boeing gave the IAM a one-week extension for its best and final offer. The Union’s final offer continued to link the long-term extension Boeing sought to a neutrality condition and guarantee of future work in the Puget Sound area, as well as continued escalation of wages and benefits.

Boeing made its decision concerning the placement of the second line in late October 2009. Given its significance, the decision involved the most senior management undertaking a thorough comparison of the business cases for each alternative. The IAM’s extensive demands in return for a promise of long-term production stability in Puget Sound were an important consideration in the discussion, and it strengthened the overall business case for Charleston, as did the general business climate in South Carolina, the desire for geographical diversity in final assembly facilities, lower labor costs, and South Carolina’s willingness to make available hundreds of millions of dollars of incentives. After fully evaluating the competing business cases for Charleston and for Everett, Boeing chose Charleston and announced its decision on October 28, 2009.

In conjunction with its decision to select Charleston for the second final assembly line, Boeing made two other decisions concerning the 787 program. First, to mitigate risk associated with the opening of the new assembly line in Charleston, and to facilitate the introduction of a new version of the Dreamliner—the 787-9, a larger variant of the 787—in Everett, Boeing decided to create a transitional “surge line” in Everett to assist the Company in its efforts to achieve its planned overall production rate of ten 787s per month. Boeing is now in the process of re-purposing and committing facilities and equipment in Everett to create the surge line, which is planned to commence operations in mid-2012; the surge line did not exist at the time of

the decision to locate in Charleston and it does not yet exist. Accordingly, there was no IAM employee working on that line and no IAM employee has yet begun work on that line. Once it comes on-line, the surge line is planned to produce 787s until 2014, by which point in time it is expected that the Everett line and the new Charleston line will be able to accommodate the planned rate of ten planes per month, and the introduction of the new 787-9 derivative. Boeing expects that, when the surge line is phased out, the overall demand for aircraft in Puget Sound—where Boeing builds not only the 787, but also its 737, 747, 767, and 777 commercial aircraft—will result in Boeing shifting the facilities and employees previously dedicated to the 787 surge line to other production lines in Puget Sound.

Second, Boeing sought to enhance the stability of production of the second final assembly line in Charleston through a “dual sourcing” program. The objective of the dual-sourcing program is to provide the Charleston facility with sources for Boeing-manufactured components (*e.g.*, vertical fins, interiors, and machine parts) independent from the sources in the Puget Sound and Portland that supply the first final assembly line in Everett.

Apparently recognizing that these decisions did not affect Unit employees, the IAM did not file any grievance under the CBA complaining that Boeing had failed to comply with notice requirements with respect to decisions that affect ten or more Unit employees. *See Ex. A.*

Immediately following Boeing’s decision to place the second 787 line in Charleston, Boeing undertook an aggressive construction and hiring schedule there and began training employees to work on the 787, using processes specific to the assembly of that composite airplane. On November 6, 2009, Boeing awarded a fast-paced design-build construction contract to deliver the 1.2 million square foot Charleston assembly line facility within 18 months. That facility is now complete and Boeing has hired and trained approximately 1,000 workers for the

Charleston line to begin production next month, with the first airplane deliveries from the Charleston line expected in early 2012. Thereafter, production will increase to three planes a month there. During the period of time since Boeing selected Charleston for the second line, Boeing also has increased IAM employment in Puget Sound by over 3,000 additional employees.

C. The charge and complaint.

In March 2010—five months after Boeing announced its decision and with construction in Charleston well under way—the IAM filed an unfair labor practice charge with the Board alleging that Boeing had violated Sections 8(a)(1), (a)(3), and (a)(5) of the NLRA by “threatening bargaining unit members,” “beginning the process of transferring work . . . to a new plant employing non-union workers,” and “failing to bargain in good faith.”

Boeing cooperated with the Regional Office’s investigation, producing numerous documents and twice meeting personally with the Acting General Counsel. On April 20, 2011, the Acting General Counsel, through the Regional Director, issued the complaint in this matter.

Notwithstanding the increase in work and concomitant increase in IAM employees in Everett since the Charleston decision, the complaint alleges that Boeing violated Section 8(a)(1) by “ma[king] coercive statements . . . that it would remove or had removed work from the Unit because employees had struck,” and by “threaten[ing] or impliedly threaten[ing] that the Unit would lose additional work in the event of future strikes.” Compl. ¶ 6.

The complaint also alleges that Boeing violated Section 8(a)(3) by “discriminating in regard to the hire or tenure or terms or conditions of employment . . . thereby discouraging membership in a labor organization,” allegedly by “decid[ing] to transfer its second 787 Dreamliner production line of 3 planes per month” and by “decid[ing] to transfer a sourcing supply program” from Everett to Charleston. Compl. ¶¶ 10, 7(a), 8(a). According to the complaint, Boeing’s decision was “inherently destructive” of protected rights even though the

applicable collective bargaining agreement gave Boeing the right to place work at the location of its choice without any obligation to bargain. And while the complaint alleges a “transfer” of the second line, it does not explain how a second line that never existed in Everett could be transferred to Charleston. Nor does the complaint elaborate how the alleged “transfer” adversely affected current Union members with regard to hire, tenure, wages or other terms or conditions of employment. The complaint relies solely on five statements made by Boeing officials to support its allegations under Sections 8(a)(1) and 8(a)(3) that Boeing’s decision was motivated by an intent to coerce, threaten, or retaliate against Union members based upon past strikes. Compl. ¶ 6. The complaint does not pursue the Section 8(a)(5) charge made by the Union that Boeing failed to bargain in good faith.

II. LEGAL PRINCIPLES & ARGUMENT

Pursuant to Section 10(b), this tribunal is obligated to conduct this hearing “under the rules of civil procedure for the district courts of the United States,” including Fed. R. Civ. P. 12(b)(6). Under that rule, though “detailed factual allegations” are not required, a complaint must be dismissed if it does not allege sufficient factual matter that, if accepted as true, “state[s] a claim to relief that is plausible on its face.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555, 570 (2007). “Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009). Nor do statements that establish only “the mere possibility of misconduct.” *Id.* at 1950. Yet, even setting aside *Twombly*’s “facial plausibility standard,” the Acting General Counsel’s complaint still should be dismissed because, put simply, what the complaint alleges were violations of the NLRA are not violations of the NLRA at all under existing precedent.

The Acting General Counsel rests his Section 8(a)(1) charge on certain statements of Boeing executives made to the public or reported through the media, but those statements only

accurately recounted the role that Boeing’s pressing need for production stability in its 787 program played in its second-line decision. For more than 40 years—at least since *Gissel Packing*—the law has been clear that truthful statements of historical fact cannot reasonably be construed as coercive or threatening of employees.

The Acting General Counsel’s claim under Section 8(a)(3) likewise is foreclosed by controlling authorities. Section 8(a)(3) itself makes clear that there can be no violation by the employer unless there is an act of discrimination with respect to “hire or tenure of employment or any term or condition of employment.” Yet the Acting General Counsel does not—because he cannot—allege that even a single Unit member has lost his or her job, had his or her wages reduced, or suffered any other change in the terms and conditions of his or her employment as a result of Boeing’s decision to locate its second 787 line in Charleston. Instead, the Acting General Counsel alleges a “transfer” of “work” away from the Unit. There was no such “transfer”; the second line was, as the Regional Director previously conceded, new work. But even if Boeing had transferred work previously committed to the Unit, there still could not be an 8(a)(3) violation without a change in the terms and conditions of employment of an actual Unit employee, which the complaint fails to allege. Moreover, the Supreme Court’s decision in *Brown* makes clear that an employer’s intent to blunt the impact of future strikes—which is the very most the statements cited in the complaint could establish—does not suffice to demonstrate the anti-union animus necessary to sustain a charge under Section 8(a)(3).

If the complaint is not dismissed in its entirety, at a minimum, this tribunal should strike the Acting General Counsel’s requested relief of an injunction commanding Boeing to “operate the second line in Everett” at untold cost to Boeing and the people of South Carolina. The Board’s remedial powers are limited to placing the parties in the position they would have

occupied but for the alleged unfair labor practice. Applying that principle here would lead not to an unprecedented injunction commanding Boeing to build an assembly line and supply chain in a place of the Board's choosing, but instead the more modest relief of restoring each affected Unit employee to the terms and conditions of employment he or she held on the date of Boeing's second-line decision. Inasmuch as there is no conceivable legal basis for the Acting General Counsel's requested relief, that request, at least, should be stricken.

A. Boeing's public statements did not violate Section 8(a)(1).

1. Employers may lawfully make statements of objective fact, predictions of future events, and views about unionism.

Section 8(a)(1) makes it unlawful for an employer to "interfere with, restrain, or coerce employees in the exercise" of their Section 7 rights, but employer statements that "contain[] no threat of reprisal or force or promise of benefit" cannot be the basis of a violation. 29 U.S.C. § 158(a)(1), (c). Whether an employer statement violates Section 8(a)(1) turns on an objective test: whether the statement would tend to coerce a "reasonable employee." *In re Saginaw Control & Eng'g, Inc.*, 339 N.L.R.B. 541, 541 (2003) (citation and quotation marks omitted). The Board considers the "context" of the statement and the "totality of the relevant circumstances" in making that determination. *Id.*

Neither a "truthful statement of objective fact" nor a prediction about the future "phrased on the basis of objective fact," including "economic necessities," violates Section 8(a)(1). *Gissel Packing Co.*, 395 U.S. at 618; *see also Exxel/Atmos, Inc. v. NLRB*, 147 F.3d 972, 975 (D.C. Cir. 1998).¹ Thus, an employer is free to make predictions about events that might "occur . . .

¹ *See also Miller Indus. Towing Equip., Inc.*, 342 N.L.R.B. 1074, 1075–76 (2004) (protecting employer statements about the company's "economic condition," "sales figures," and competitive position, because they were supported by "demonstrable facts," "verifiable accounts of past events," "realities of the business [situation]," and "actual

because of the ordinary operations of a market economy.” *Crown Cork & Seal Co. v. NLRB*, 36 F.3d 1130, 1134 (D.C. Cir. 1994); *see also NLRB v. Village IX*, 723 F.2d 1360, 1367 (7th Cir. 1983) (“To predict a consequence that will occur no matter how well disposed the company is toward unions is not to threaten retaliation.”). Particularly, the Board has protected employer speech concerning “what might result in the event of a strike” because it was “an apt description of the likely effects of interrupted production.” *Miller*, 342 N.L.R.B. at 1076. Discussion of the impacts of strikes, including “interrupting shipments to customers” and difficulty “maintaining competitive position” are permissible because they reflect economic realities “beyond the employer’s control.” *Gen. Elec. Co. v. NLRB*, 117 F.3d 627, 633 (D.C. Cir. 1997).

2. Boeing’s statements are lawful under settled precedent.

The complaint alleges that five statements by Boeing and its senior executives violated Section 8(a)(1): (1) an October 21, 2009 earnings call led by James McNerney, Boeing’s President and CEO; (2) a Boeing internal memorandum dated October 28, 2009, entitled “787 Second Line, Questions and Answers for Managers”; (3) a December 7, 2009 article in the Seattle Times regarding Boeing’s decision about dual-sourcing; (4) a December 8, 2009 article in the Puget Sound Business Journal also about dual-sourcing; and (5) a March 2010 interview of James Albaugh (currently CEO of Boeing Commercial Airlines) by Dominic Gates of the Seattle Times. *See* Compl. ¶¶ 6(a)–(e). The Acting General Counsel alleges that, through these statements, Boeing effectively told its employees “that it would remove or had removed work from the Unit” and “threatened or impliedly threatened that the Unit would lose additional work in the event of future strikes.” *Id.* ¶ 6.

occurrences”); *P.S. Elliot Servs.*, 300 N.L.R.B. 1161, 1162 (1990) (protecting a “truthful statement of an objective fact,” in a meeting with the displaced employer’s workforce, that the employer “was a non-union company”).

When viewed in context—as Board precedent requires—the statements are plainly lawful. They accurately recite the factors Boeing was considering (in the case of the October 21, 2009 earnings call) or had considered (in the case of the other four statements) in deciding where to locate its second 787 assembly line, including the company’s pressing need for production continuity and the inability of the company to achieve that continuity in Everett. The complaint conjures a violation of Section 8(a)(1) only by flagrantly misquoting and mischaracterizing the statements.

For example, the complaint alleges that Mr. McNerney, in the October 21, 2009 earnings call, stated that Boeing was “‘diversifying [Boeing’s] labor pool and labor relationship,’ and moving the 787 Dreamliner work to South Carolina due to ‘strikes happening every three to four years in Puget Sound.’” Compl. ¶ 6(a). Yet, the transcript of that call itself makes clear—and no one disputes—that Boeing had not yet reached a decision about where to place the new second 787 line; Boeing would be choosing between “Everett and Charleston . . . over the next couple of weeks.” The Boeing Company, Q3 2009 Earnings Call Transcript (Oct. 21, 2009), Ex. B at 18. And in discussing the relative merits of those sites, what Mr. McNerney *actually* said is that “diversifying [Boeing’s] labor pool and labor relationship has some benefits” and that “modest inefficiencies . . . associated with the move to Charleston[] are certainly more than overcome by strikes happening every three or four years in Puget Sound.” *Id.* at 19. Those actual words cannot possibly be construed as threatening or coercive. The first fragment—concerning the benefits of diversification—is a self-evident statement of fact, protected at least since the Supreme Court’s 1969 decision in *Gissel Packing Company*. *See* 395 U.S. at 618. The second fragment—weighing the relative inefficiencies of opening a new facility and suffering regular work stoppages—is nothing more than an executive’s truthful assessment of business realities of

the type the Board previously acknowledged “cannot be reasonably described as a threat.” *Miller*, 342 N.L.R.B. at 1076.

The complaint similarly misquotes and mischaracterizes Mr. Albaugh’s March 2010 interview with the Seattle Times. Without quoting a single word of the 19-page interview, the Acting General Counsel alleges that Mr. Albaugh stated that Boeing “decided to locate its 787 Dreamliner second line in South Carolina because of past Unit strikes, and threatened the loss of future Unit work opportunities because of such strikes.” Compl. ¶ 6(e). Mr. Albaugh said no such thing. In response to the interviewer’s question about “Boeing’s commitment to Washington State,” Mr. Albaugh responded: “Well this is the headquarters of Boeing Commercial Aircraft. And it will be I think for probably forever.” Interview of James Albaugh (Mar. 1, 2010), Ex. F at 1. Indeed, he repeatedly emphasized his “preference” to continue to operate and place new work in the Puget Sound region and that “there are no discussions of moving any work that’s currently here out of Puget Sound.” *Id.* at 1, 2, 3. Explaining the Company’s decision to locate the second 787 assembly line in Charleston, Mr. Albaugh did not attribute it simply to “past Unit strikes,” but instead explained that “it was really about how we could ensure production stability and how we could ensure that we remain competitive for the long haul.” *Id.* And when looking toward Boeing’s future work location decisions, Mr. Albaugh similarly noted the paramount importance of a “stable production line” and remaining “competitive for the long haul,” but also stated clearly that “the first preference is to put the work here,” which is to say, in Everett, if those objectives could be achieved. *Id.* at 2.

It is settled law that such statements do not constitute a threat of retaliation for the exercise of Section 7 rights. *See, e.g., Gen. Elec.*, 117 F.3d at 633. Where an employer conveys the risks associated with the exercise of Section 7 rights, there is no threat of retaliation where

the risks described are grounded in “objective factors beyond the employer’s control.” *Id.* at 634; *see also Crown Cork*, 36 F.3d at 1140. It is a self-evident objective fact that strikes diminish production stability and hamper a business’s ability to compete in the marketplace, and it is an economic reality that businesses generally will seek to avoid exposure to strikes. Accordingly, authoritative precedent confirms that statements that strikes risked “interrupt[ing] shipments to customers” and damaging a business’s “competitive position” and therefore could “lead . . . the parent company to invest[] elsewhere”—precisely the concerns expressed by Mr. Albaugh in the interview—cannot give rise to Section 8(a)(1) liability. *Gen. Elec.*, 117 F.3d at 633–34; *see also Miller*, 342 N.L.R.B. at 1076 (holding lawful employer’s statements about “what might result in the event of a strike,” which was “an apt description of the likely effects of interrupted production”).²

The complaint’s reliance on two newspaper articles reporting on the dual-sourcing decision is equally misplaced. The Acting General Counsel alleges that, in these articles, Boeing officials stated that Boeing made the dual-sourcing decision due to “past Unit strikes,” Compl. ¶ 6(c)-(d), but the articles—much less the quotes attributable to Boeing officials—say nothing of the sort. Rather, both articles make clear that the dual-sourcing decision was made to enable Boeing to continue producing 787s in Charleston in the event of a future strike by the IAM in Everett. *See Dominic Gates, Boeing to duplicate Puget Sound work for 787*, *Seattle Times*, Dec. 7, 2009, Ex. D at 1 (statement by Proulx that: “With a second supplier for every part,

² For the same reasons, Boeing’s internal October 28, 2009, memorandum entitled “787 Second Line, Questions and Answers for Managers,” *see* Ex. C, which the Acting General Counsel alleges told employees that Boeing’s “decision to locate the second 787 Dreamliner line in South Carolina was made in order to reduce [Boeing’s] vulnerability to delivery disruptions caused by work stoppages,” Compl. ¶ 6(b), cannot be a basis for Section 8(a)(1) liability. The Acting General Counsel’s reliance on this document is misplaced for the additional reason that the Supreme Court has held—at the Board’s urging—that an “employer may legitimately blunt the effectiveness of an anticipated strike . . . without violating . . . § 8(a)(1).” *Brown*, 380 U.S. at 283.

Boeing potentially could continue producing Dreamliners in South Carolina even if the Machinists went on strike here”). As Ray Conner explained in the internal memorandum cited by both articles, this dual-sourcing was necessary to “maintain production stability and be a reliable supplier to our customers.” Steve Wilhelm, *Boeing moves to maintain S.C. 787 line in a strike*, Puget Sound Business Journal, Dec. 8, 2009, Ex. E at 1. The Supreme Court has long recognized that efforts to blunt the effectiveness of future strikes—even those announced as such—are economic weapons an employer legitimately may employ in its dealings with a union. *See Brown*, 380 U.S. at 283. And to the extent Boeing announced the dual-source decision by reference to past strikes at all, Boeing grounded its discussion of the consequences of those strikes in the objective fact beyond the company’s control that the strikes “have affected our performance in our customers’ eyes” and that measures accordingly needed to be taken “to show our customers we can be a reliable supplier to them.” Ex. D at 1. Under *General Electric* and subsequent Board authority, there is no threat of retaliation that reasonably may be perceived in such a statement. *Gen. Elec.*, 117 F.3d at 633–34; *see also Miller*, 342 N.L.R.B. at 1076.

The statements cited by the Acting General Counsel demonstrate only that the damage past IAM strikes did to Boeing’s production stability and competitiveness played a significant role in Boeing’s second-line and dual-sourcing decisions. But it is not illegal for an employer to make accurate statements of historical fact—as each of the five statements cited by the Acting General Counsel were. Nor does it violate Section 8(a)(1) for an employer to advise a union that the exercise of their Section 7 rights in the future inevitably has economic consequences to which the company may need to respond. That is the most that can be made of the statements cited in the complaint. They do not remotely approach the threats of reprisal or coercion

necessary to make out a violation of Section 8(a)(1) and the Acting General Counsel's claim under that section accordingly should be dismissed.

B. Boeing's location of the second 787 final assembly line and its dual sourcing decision did not violate Section 8(a)(3).

Section 8(a)(3) prohibits employers from affecting employees' "hire or tenure of employment or any term or condition of employment" in order to discourage participation in protected activities. To establish a violation of Section 8(a)(3), the Acting General Counsel must show:

- (1) that "an employee's employment conditions were adversely affected"; and
- (2) that the adverse employment action "was motivated by" the employee's "union or other protected activities."

Wright Line, 251 N.L.R.B. 1083, 1083 (1980); *see also Int'l Union of Operating Eng'rs, Local 470, AFL-CIO v. NLRB*, 350 F.3d 105, 110 (D.C. Cir. 2003) ("*Tenneco*"). In Boeing's case, the Acting General Counsel can show neither that any employees' terms and conditions of employment were affected nor that Boeing acted with an unlawful intent.

1. Opening a new final assembly line in Charleston and implementing a dual source plan did not cause any adverse employment actions in Everett.

Section 8(a)(3) prohibits discrimination in the "hir[ing] or tenure of employment or any term or condition of employment." 29 U.S.C. § 158(a)(3); *Lancaster Fairfield Community Hosp.*, 311 N.L.R.B. 401, 403-04 (1993) (a non-disciplinary counseling report does not satisfy Section 8(a)(3) because it does "not affect 'any term or condition of employment'").

The complaint alleges that Boeing violated Section 8(a)(3) by "decid[ing] to transfer its second Dreamliner production line of 3 planes per month from the Unit to its non-union site in North Charleston, South Carolina" and "transfer[ring] a sourcing supply program" (*i.e.*, the dual source plan). Compl. ¶¶ 7(a), 8(a), 10. But the complaint noticeably fails to allege that any

current Unit employee has been laid off, or that any of the specific terms or conditions of employment of any Unit employee have been adversely affected as a result of those decisions. Nor does the complaint allege that layoffs or other changes to the terms and conditions of employment are imminent or planned. And neither does the complaint allege—because it could not—that any IAM employee possessed any entitlement to any of the work allegedly “transferred.”

Without any of these allegations, the Acting General Counsel’s Section 8(a)(3) claim cannot stand. Transferring “work” of a “production line” or a “supply program” away from a bargaining unit without more cannot constitute an adverse employment action. There must be a change in the terms and conditions of employment of actual Unit employees—real people. *See Lancaster Fairfield*, 311 N.L.R.B. at 403. But the Acting General Counsel has leveled no such allegation here. Nor could he in good faith because it is undisputed that no Unit members have lost their jobs, had their wages reduced, or suffered any other adverse changes in the terms and conditions of their employment as a result of Boeing’s decision to locate the second 787 line and supply chain outside the Unit. To the contrary—and accentuating the absurdity of the proposed remedy—since the second-line decision, Boeing has added more than 3,000 Unit employees.

But even if “transferring work” itself could constitute a change in the terms or conditions of employment for the purposes of Section 8(a)(3), here there has been no such transfer. As Regional Director Ahearn previously acknowledged, the “work” about to begin in Charleston never existed in Everett. Work that never existed in Everett could not have been transferred away from Everett. The construction of a second final assembly line—whether located in Everett or Charleston—was required to expand Boeing’s 787 production capacity beyond the

seven planes per month Boeing planned to achieve on the first 787 assembly line in Everett. That increase in Boeing's 787 assembly capacity was new work.

Nor can Boeing's as-yet uncompleted plans to establish a transitional surge line in Everett constitute an adverse employment action. As an initial matter, the surge line is not yet operational, and is not expected to be until mid-2012; Boeing still is in the process of repurposing and committing the facilities and equipment needed for the line. No current IAM employee now works on the surge line, much less is in any conceivable danger of being laid off from that position. The transitional surge line is not even planned to be phased out until what would be *years from now*, in mid-2014, once the Charleston and Everett assembly lines reach their planned production rates of ten per month, and the new 787-9 derivative has been introduced into the production system. At that distant point in the future, it is expected that the employees assigned to the surge line will be reassigned to other production lines in Puget Sound. Indeed, due to increased demand for several different Boeing airplane models, Boeing recently has hired more than 3,000 additional employees into the Puget Sound bargaining unit, and has publicly announced plans to hire many more. Any theory of adverse employment action arising from Boeing's decision to dedicate some of its facilities, equipment, and IAM-represented employees temporarily to a transitional surge line necessarily is predicated on bald speculation about what may happen to surge line employees years into the future. That kind of speculation, as a matter of law, fails to allege the adverse employment action that Section 8(a)(3) requires.

The Acting General Counsel's inability to allege any adverse employment action against any IAM employee forecloses his Section 8(a)(3) claim. None of the indicia of a change in IAM employees' terms or conditions of employment are present here: They have not been laid off, demoted, relocated, suffered a reduction in wages, benefits or work hours, or had their job duties

changed as a result of the decision. Indeed, neither the Acting General Counsel nor the IAM can point to even one Unit employee who has been adversely impacted by Boeing's second-line and dual-sourcing decisions. Boeing's decision to place *new work* in Charleston simply did not affect the IAM employees, and the complaint does not allege otherwise.

2. Boeing's motives, as alleged in the complaint, were lawful.

Even if the Acting General Counsel somehow establishes an adverse employment action, Boeing must have also acted with an unlawful motive: *i.e.*, "to . . . discourage membership in any labor organization." 29 U.S.C. § 158(a)(3). The Acting General Counsel must show either: (1) that Boeing's choice of Charleston was "inherently destructive" of protected activity, or (2) that Boeing was motivated by anti-union animus. *See NLRB v. Great Dane Trailers, Inc.*, 388 U.S. 26, 33–34 (1967). The complaint alleges both theories of unlawful motive, Compl. ¶¶ 7–8, but there is no support for those allegations.

A "wide range of employer actions taken to serve legitimate business interests in some significant fashion" do not violate Section 8(a)(3) "even though the act committed may tend to discourage union membership." *Am. Ship Building Co. v. NLRB*, 380 U.S. 300, 311 (citing *NLRB v. Mackay Radio & Tel. Co.*, 304 U.S. 333 (1938)). "[T]here is nothing in the [NLRA] which gives employees the right to insist on their contract demands, free from the sort of economic disadvantages that frequently attends bargaining disputes." *Am. Ship Building Co.*, 380 U.S. at 313. Indeed, the Act "do[es] not give the Board a general authority to assess the relative economic power of the adversaries and to deny weapons to one party or the other because of [the Board's] assessment of that party's bargaining power." *Id.* at 317. Yet accepting the Acting General Counsel's Section 8(a)(3) theory would inflict just such a result, denying to Boeing its long-recognized right to take action to blunt the impact of future strikes.

a. Boeing’s decision was not inherently destructive of employee rights.

The Acting General Counsel’s conclusory allegation that Boeing’s decision was “inherently destructive” of the rights of Boeing’s represented workforce is so implausible—indeed, incredible—that it merits only brief treatment here. An employer’s conduct is inherently destructive only if it “carries with it an inference of unlawful intention so compelling that it is justifiable to disbelieve the employer’s protestations of innocent purpose.” *Am. Ship Bldg. Co.*, 380 U.S. at 311–12. The conduct must be “so destructive of employee rights and so devoid of significant service to any legitimate business end that it cannot be tolerated consistently with the Act.” *Brown*, 380 U.S. at 286.

The complaint alleges that Boeing’s decision to “transfer” work away from the Unit is inherently destructive. Compl. ¶¶ 7(a), (c), 8(a), (c). That allegation is foreclosed by *Brown* and *American Ship Building*. In those companion cases, the Supreme Court analyzed a wide range of employer actions—including the preemptive lockout at issue in *American Ship Building* and the lockout and hiring of temporary replacements in response to a whipsaw strike at issue in *Brown*—and held that they were not “inherently destructive” of employees’ Section 7 rights. *See Am. Ship Bldg.*, 380 U.S. at 312; *Brown*, 380 U.S. at 283. In *Brown*, the Court adopted the Board’s own language from its brief in *American Ship Building*, confirming “that an employer may *legitimately* blunt the effectiveness of an anticipated strike” by “stockpiling inventories, readjusting contract schedules, or *transferring work from one plant to another*, even if he thereby makes himself ‘virtually strikeproof.’” 380 U.S. at 283 (emphasis added); *see also Charles D. Bonanno Linen Serv., Inc. v. NLRB*, 454 U.S. 404, 416 n.9 (1982) (an employer can “try to blunt the effectiveness of an anticipated strike by,” among other things, “transferring work from one plant to another”).

Moreover, Boeing's undisputed and bargained-for right under Section 21.7 of the collective bargaining agreement to "designate the work to be performed by the Company and the places where it is to be performed" alone defeats any claim that Boeing's actions were inherently destructive. Ex. A. Boeing's right to decide to expand 787 production, and to place a second final assembly line in another state, is expressly contemplated by the collective bargaining agreement. As a matter of both logic and common sense, it cannot be inherently destructive of collective bargaining rights for an employer to exercise its bargained-for right under a collective bargaining agreement. Far from being inimical to the collective bargaining relationship, by exercising its right to locate new work outside of the Unit, Boeing did only that which the parties have expressly contemplated as one of Boeing's available courses of action in that relationship. It simply cannot be the case that an employer's exercise of an express contractual right can be viewed as "inherently destructive" under settled board precedent.

b. There is no plausible allegation of anti-union animus.

Where an employer's conduct is not "inherently destructive," it has a "comparatively slight," if any, impact on employee rights. *Great Dane*, 388 U.S. at 34. In such a case, the Acting General Counsel bears the burden of showing actual anti-union animus, such as "evidence indicating that the [action] was intended to discourage union membership or that was used in the service of designs inimical to the process of collective bargaining." *Local 702, Int'l Bhd. of Elec. Workers, AFL-CIO v. NLRB*, 215 F.3d 11, 18 (D.C. Cir. 2000) (citations and internal quotation marks omitted). The complaint offers nothing of the sort.

As discussed above, none of the statements cited by the complaint—which constitute the *only* pertinent allegations in the complaint—contains any express or implied statements of intent to discourage union membership or to oppose collective bargaining. *See supra* at 13–17 (discussing Exs. B–F). *See Local 702*, 215 F.3d at 18. To the contrary, the statements are

replete with praise for the IAM, shared management responsibility for past setbacks, and optimism about continuing to work productively with the IAM in Everett in the future. *See, e.g.*, Exs. C at 2–3 (“discussions with the IAM were productive” and “we look forward to working with the IAM in a positive way”), F at 2–3 (IAM employees are “magicians”; Albaugh would prefer for future work to stay in Puget Sound region).

Moreover, any allegation of anti-union animus is soundly defeated by the fact that Boeing engaged in good faith bargaining with the IAM over the second-line decision, notwithstanding Boeing’s rights under Section 21.7 to decide unilaterally where to place the work. The Board and courts have recognized such positive signs of good faith as ample bases for *rejecting* accusations of animus.³

At most, the statements cited by the Acting General Counsel demonstrate that Boeing located its second 787 assembly line in Charleston in part to help it weather any future disruption of production on the first 787 line in Everett, including a future IAM strike. But Supreme Court and Board precedent confirm that this deployment of “economic weapons” to blunt the effectiveness of future strikes not only fails to evince anti-union animus, but indeed “is part and parcel of the system that the Wagner and Taft–Hartley Acts have recognized.” *NLRB v. Int’l Union, AFL–CIO*, 361 U.S. 477, 489 (1960); *see also Betts Cadillac Olds, Inc.*, 96 N.L.R.B. 268, 285 (1951) (“[An employer] has, and needs, the right to protect himself by reasonable measures from harmful economic or operative consequences of a strike.”). As the D.C. Circuit said in *International Brotherhood of Boilermakers, Local 88 v. NLRB*, the fact that

³ *See, e.g., Local 702*, 215 F.3d at 18 (citing employer’s “clearly expressed desire in [a] letter to resolve differences and resume business as usual as soon as possible”); *see id.* (citing employer’s “lengthy, good faith attempts to reach a contract” as part of its “historic and continuing good faith dealing with the Union”); *Democratic Union Organizing Comm. v. NLRB*, 603 F.2d 862, 887 (D.C. Cir. 1978) (“[T]he fact that the companies informed the union that they were considering leasing and ‘invited discussion before their final decision’ evinces a greater commitment on their part to the collective bargaining process than the union”).

an employer's action may chill or diminish a union's relative bargaining power "can have *no bearing* on the lawfulness of the employer's [action]" under Section 8(a)(3) because "it is not the role of the NLRB, and certainly not that of the courts, to regulate the bargaining power of the parties to a labor dispute." 858 F.2d 756, 765–66 (D.C. Cir. 1965) (emphasis added).

In the absence of allegations that a Unit member suffered some adverse employment action due to Boeing's decision to establish a new assembly line in Charleston, or factual allegations that, if proven, would establish that the non-existent adverse action was motivated by anti-union animus, the Acting General Counsel's Section 8(a)(3) claim must be dismissed.

C. Boeing and its South Carolina employees should not have to live under a cloud of possible shutdown; the requested remedy for Boeing to "operate" the second final assembly line in Everett should be stricken.

Board orders must be remedial, not punitive; the Board can only seek a return to the *status quo ante*. See *Phelps Dodge Corp. v. NLRB*, 313 U.S. 177, 194 (1941). The standard remedy in a Section 8(a)(3) case, even in cases finding a "runaway shop," is to order laid-off employees reinstated, with back pay. See, e.g., *Lear Siegler, Inc.*, 295 N.L.R.B. 857, 860 (1989). Thus, even assuming that Boeing "transferred" work to Charleston, the appropriate remedy would be for Boeing to re-hire and restore the terms and conditions of employment to those employees adversely affected by the "transfer."

Instead, the Acting General Counsel is seeking an order that Boeing "operate" the second final assembly line in Everett. Compl. ¶ 13(a). Such a remedy is untethered to any restoration of the hire, pay, or terms and conditions of employment of any individual employee. Ordering Boeing to "operate" the second line in Everett would also not be a return to the status quo—the second final assembly line never existed in Everett, no work has been lost in Everett, and no current employees have been harmed by Boeing's decision not to expand in Everett. And inasmuch as they already are employed, no current Unit members would benefit from the

construction and operation of another assembly line in Everett. Such an order might benefit the Unit by enlarging its membership, but it would have no impact whatsoever on the terms and conditions of the employment of current Unit members.

Even if a violation were found, the remedy must be focused on those employees, not on Boeing's enterprise-level business decisions, such as what work will take place in Everett or in Charleston or how many 787s Boeing should make per month. The Board's remedial power is to restore the status quo of *employees*, not "work."

Beyond its obliviousness to the status quo, the Acting General Counsel's requested injunction is unlawful because it is "unduly burdensome." *Lear Siegler, Inc.*, 295 N.L.R.B. 857, 861 (1989); *see Coronet Foods v. NLRB*, 158 F.3d 782, 794 (4th Cir. 1993) (*Coronet Foods II*); *Frito-Lay, Inc. v. NLRB*, 585 F.2d 62, 68 (3d Cir. 1978); *NLRB v. R & H Masonry Supply, Inc.*, 627 F.2d 1013, 1014 (9th Cir. 1980); *NLRB v. Townhouse TV & Appliances, Inc.*, 531 F.2d 826, 830 (7th Cir. 1976). The injunction would impose immense economic burdens on Boeing: It would compromise a billion-dollar investment in South Carolina; it would require Boeing to invest many millions more to expand production capacity in Everett, and it would disrupt Boeing's global supply chain and almost certainly disrupt deliveries to customers. The totality of those costs would dwarf those imposed by orders stricken as unduly burdensome. *See, e.g., Frito-Lay*, 858 F.2d at 68 (several hundreds of thousands of dollars per year); *Townhouse TV*, 531 F.2d at 831–32 (roughly \$160,000). In financial terms it is doubtless the most burdensome remedy ever requested in an NLRB proceeding, much less affirmed.

And contrary to the complaint's suggestion, "operat[ing]" the second final assembly line in Everett would require massive changes to the Charleston 787 line. *See Compl.* ¶ 13(b). That facility was designed and constructed to assemble 787s. Tens of millions of dollars of heavy

tooling and equipment specific to the assembly of the composite 787 have been installed in the Charleston facility. The new workforce has been hired and specifically trained to build 787s. The manifest implication of the Board's remedy would require that all of Boeing's currently planned 787 production—ten planes a month—be done in Everett, meaning that none could be built in Charleston. The net effect of an injunction requiring Boeing to move the second-line work to Everett would be to idle the Charleston facility, with obvious implications for the employees now working there. Uninformed suggestions that these implications could be avoided by Boeing increasing its 787 production—an enormously significant decision requiring long lead times and carrying broad implications for the Company and its global supply chain—or re-designing the Charleston factory (and reconfiguring its supply chain) at some point in the future to build a different airplane, merely reinforce the extraordinary and impermissible purpose of this action, which is to do nothing less than direct a company's major manufacturing decisions.

Federal courts will not enforce injunctions like the one proposed here without considering the four traditional equitable factors of an injunction, including the harm the injunction would impose on third parties such as Boeing's 1,000 new employees in Charleston and the State of South Carolina. *See eBay Inc. v. mercExchange, L.L.C.*, 547 U.S. 388, 390 (2006). Indeed, the Board itself has recognized that its own remedies should take into account “undue hardship on innocent third parties,” including those who have made investments based on employer decisions. *Winn-Dixie Stores, Inc.*, 147 N.L.R.B. 788, 790 (1964) (citing *Renton News Record*, 136 N.L.R.B. 1294 (1962)).

Those factors weigh decisively against imposition of the Acting General Counsel's suggested remedy. Even aside from the 1,000 employees Boeing has already hired for the second final assembly line there, Boeing's expansion in Charleston has been a major economic

event for South Carolina, as evidenced by the significant economic incentives the State granted Boeing. Third parties in the region and in Boeing's supply chain have invested hundreds of millions of dollars based upon the expectation that Boeing's second final 787 assembly line would be in Charleston, along with all its associated economic effects. Those investments would be harmed or destroyed if Boeing were forced to "operate" the second line in Everett. Under Board and federal court precedent, the hardship of the proposed order renders it wholly inappropriate.

Accordingly, the Acting General Counsel's request that Boeing be ordered "to have the Unit operate its second line of 787 Dreamliner aircraft assembly production in the State of Washington, utilizing supply lines maintained by the Unit in the Seattle, Washington, and Portland, Oregon, area facilities," should be stricken from the complaint.

CONCLUSION

The complaint represents a radical departure from settled law in multiple respects and should be dismissed at this stage of the proceedings. Boeing's decision to provide additional capacity in Charleston for the 787 did not harm any current IAM employees. This is not a "runaway shop" case because Boeing has not run away—it has expanded. Without any harm to current IAM employees, Boeing has not violated Sections 8(a)(1) or 8(a)(3). Equally important, Boeing's motivation to guard against the economic impacts of anticipated future strikes is a *legitimate motive*, and has been so under settled Board and Supreme Court precedent for over 45 years.

At bottom, the Acting General Counsel is requesting that the Board grant the IAM a contractual advantage that it was unable to gain through permissive bargaining with the Company: a second line in Everett. But the Act simply does not provide the Board or the courts with authority to "assess the relative economic power of the adversaries in the bargaining process

and to deny weapons to one party or the other because of [the Board's] assessment of that party's bargaining power." *Am. Ship Building*, 380 U.S. at 317. To do so would amount to "the Board's entrance into the substantive aspects of the bargaining process to an extent Congress has not countenanced." *Id.* at 317-18.

Respectfully Submitted,

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REGION 19

THE BOEING COMPANY

and

Case 19-CA-32431

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CERTIFICATE OF SERVICE

I certify that a copy of Respondent's Motion to Dismiss for Failure to State a Claim, or, in the Alternative, to Strike the Injunctive Relief Sought in ¶ 13(a) of the Complaint was electronically served on June 14, 2011 to the following parties and was hand-delivered to the tribunal:

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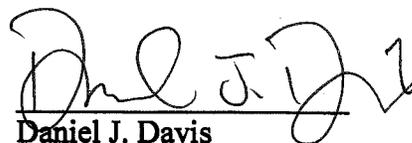
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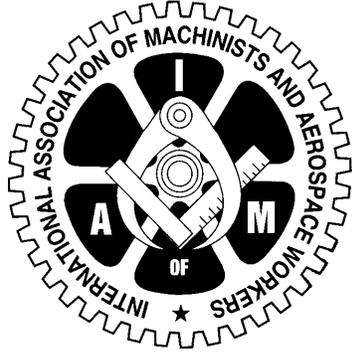
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DATED this 14th Day of June, 2011

A handwritten signature in black ink, appearing to read "Daniel J. Davis", written over a horizontal line.

Daniel J. Davis
GIBSON, DUNN & CRUTCHER LLP
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EXHIBIT A



**COLLECTIVE
BARGAINING
AGREEMENT**

COLLECTIVE BARGAINING AGREEMENT

of November 2, 2008

BETWEEN

THE BOEING COMPANY

and

**INTERNATIONAL ASSOCIATION OF MACHINISTS
AND AEROSPACE WORKERS, AFL-CIO**

and

**CERTAIN DISTRICTS AND LOCAL LODGES
THEREOF**

1 conjunction with the Joint Company-Union Alcohol and Drug
2 Dependency Program. The details of the Program are described in the
3 parties' Letter of Understanding No. 7, entitled Joint Company-Union
4 Alcohol and Drug Dependency Program.

5 **Section 21.7 Subcontracting.**

6 The parties acknowledge that subcontracting work (moving work from a
7 Company facility to an outside supplier) and offloading work (moving work
8 from one Company facility to another Company facility not covered by this
9 Agreement) affect the job security of employees. The word “work” for
10 purposes of this Section refers to work of a type currently performed within
11 the bargaining unit. Accordingly, notwithstanding any other provision of
12 this Agreement, the Company agrees that employees will not be laid off as a
13 direct result of subcontracting or offloading work unless they are unwilling
14 to change jobs (including a downgrade), shift, or locations within the
15 bargaining unit. This layoff restriction does not apply to strategic work
16 placements, see below, or offsets or offset arrangements (condition of sale
17 placements); to a merger, sale, transfer, or other disposition of a plant or
18 facility or operating unit thereof; or to temporary subcontracting or
19 offloading necessary because of required equipment overhaul or repair,
20 labor disruptions, or events beyond the control of the Company (acts of
21 God, natural disasters, equipment failure, major accidents, etc.).

22 The parties agree to oversee, upon the Union’s request, significant
23 subcontracting and offload proposals (those affecting at least ten (10)
24 employees) and to determine whether a financially and strategically
25 justifiable basis exists either to keep work within the Company or return
26 work to a Company facility covered by this Agreement. To assist in the
27 oversight process, Union Site Representatives, (six (6) in Puget Sound, and
28 one (1) in Portland) will actively participate in the Company’s Work
29 Movement Groups’ studies, for the purpose of reviewing and
30 recommending, early in the business case analysis, subcontracting or
31 offloading alternatives that are financially and strategically sound.

32 To enable the Union Site Representatives to suggest alternatives that would
33 allow the retention of work within the bargaining unit, the Company will, at
34 least one hundred eighty (180) days prior to signing the subcontract or
35 offloading the work, provide notice to the Union of plans to subcontract or
36 offload work then being performed by bargaining unit employees. With
37 respect to plans to consolidate work for efficiency or strategic reasons in a
38 Company facility not covered by this Agreement, the Company will provide
39 notice at least sixty (60) days prior to offloading the work then being
40 performed by bargaining unit employees. The notice will include the reason
41 for the planned subcontracting or offloading. The Company will provide the
42 Union Site Representatives with the information used by the Company’s
43 Work Movement Groups to assess the relative costs of subcontracting,

1 offloading, or performing the work in the bargaining unit. The Union will
2 keep confidential, and not disclose, any information provided pursuant to
3 this Section 21.7 which the Company designates as not subject to
4 disclosure.

5 For subcontracting and offloading decisions affecting less than ten (10)
6 employees (including but not limited to decisions to consolidate work for
7 efficiency or strategic reasons in a Company facility not covered by this
8 Agreement), the Company will provide notice to the Union Site
9 Representatives of plans to subcontract or offload work then being
10 performed by bargaining unit employees. The notice will include the
11 reason for the planned subcontracting or offloading. The one hundred
12 eighty (180) day or sixty (60) day notice restriction will not apply to
13 subcontracting and offloading decisions affecting less than ten (10)
14 employees. If time permits following the notice, Union Site Representatives
15 may recommend subcontracting or offloading alternatives to such decisions
16 (those affecting less than ten (10) employees) that are financially and
17 strategically sound.

18 It is agreed that the Union Site Representatives' evaluation process is to be
19 limited to those significant subcontracting or offloading decisions where
20 cost is the determining factor. Consequently, the notice and review process
21 does not cover the following work transfers:

22 a. Decisions made primarily for strategic considerations ("strategic
23 work placement") such as decisions to place work with foreign
24 suppliers (1) for purposes of forming or continuing key strategic
25 alliances, (2) for gaining potential access to a key market, (3) for
26 entering risk sharing arrangements, or (4) because of condition of sale
27 placements;

28 b. Decisions arising from a merger, sale, transfer, or other disposition
29 of a plant or facility or operating unit thereof;

30 c. Decisions to subcontract or offload work due to lack of capability
31 or capacity, or to prevent production schedule slippage;

32 d. Decisions to temporarily onload work or to temporarily subcontract
33 or offload work due to emergent short-term needs; or

34 In the event of a decision described in (a) through (d) above, the Company
35 will notify the Union as soon as practical of the decision and the reasons for
36 the decision. For tooling subcontracting or offloading decisions described
37 in (a) through (d) above, the Company will provide Union Site
38 Representatives with information concerning subcontracting or offloading
39 activity on a monthly basis.

40 The Company's Work Movement Group will conduct a monthly review
41 with the Union Site Representatives to discuss activities related to the

1 Company/Union oversight process and to discuss opportunities to improve
2 the process. Upon the Union's request, the Company will conduct a
3 quarterly review to share the status of the previous quarter's activities.

4 Anything in this Section 21.7 to the contrary notwithstanding, it is agreed
5 that under and included within the meaning of Article 2 of this Agreement
6 that the Company has the right to subcontract and offload work, to make
7 and carry out decisions in (a) through (d) above, to enter offsets and offset
8 arrangements, and to designate the work to be performed by the Company
9 and the places where it is to be performed, which rights shall not be subject
10 to arbitration.

11 The parties recognize that the Company must compete in a highly
12 competitive global economy, and commit to achieving the highest level of
13 quality and productivity possible. Both parties recognize that ultimate job
14 security can only be realized in a work environment that creates operational
15 effectiveness, continuous improvement and competitiveness.

16 **Section 21.8 Pilot Projects.**

17 **21.8(a) Objective.** The Union and the Company agree that it is in
18 their best interest to stimulate and support long-term, broad changes
19 aimed at improving the quality of work life and productivity. This can
20 be accomplished best by active involvement of the Union and the
21 Company in planning, developing, implementing and evaluating
22 innovative programs to further these aims. Accordingly, the parties
23 shall:

- 24 1. Review and evaluate pilot projects involving innovative
25 approaches in the workplace and provide for their
26 implementation, operation and assessment;
- 27 2. Assure that pilot projects provide for employee and Union
28 involvement through the establishment of joint pilot project
29 committees to oversee project implementation, operation and
30 assessment;
- 31 3. Review experiences of other employees and unions with
32 similar activities and provide for dissemination of information;
- 33 4. Assess the impact on the pilot projects of existing work
34 practices including, but not limited to, job security,
35 compensation, job descriptions/classifications, training, and
36 work schedules;
- 37 5. Following implementation and assessment of a pilot project,
38 review the feasibility of broader application; and
- 39 6. Select consultants and other outside experts by mutual
40 agreement.

EXHIBIT B

Seeking Alpha α

The Boeing Company Q3 2009 Earnings Call Transcript

Executives

Diana Sands - Vice President of Investor Relations

Jim McNerney - Chairman, President & Chief Executive Officer

James Bell - Corporate President & Chief Financial Officer

Tom Downey - Senior Vice President of Corporate Communications

Analysts

Doug Harnett - Sanford Bernstein

Robert Spingarn - Credit Suisse

Heidi Wood - Morgan Stanley

Ron Epstein - Banc of America Merrill Lynch

Cai von Rumohr - Cowen & Company

Joe Campbell - Barclays Capital

Itay Michaeli - Citi

Howard Rubel - Jefferies

Joe Nadol - JPMorgan

Robert Stallard - Macquarie Research Equities

David Strauss - UBS

Troy Lahr - Stifel Nicolaus

Media

Susanna Ray - Bloomberg News

Anne Keeton - Dow Jones

John Austrauer - Flight International

Mike Meacham - Aviation Week

Dominic Gates - The Seattle Times

Steve Wilhelm - Puget Sound Business Journal

The Boeing Company ([BA](#)) Q3 2009 Earnings Call October 21, 2009 12:00 pm ET

Operator

Good day, everyone and welcome to The Boeing Company's third quarter 2009 Earnings 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 Miss Diana Sands, Vice President of Investor Relations for The Boeing Company. Ms. Sands, please go ahead.

Diana Sands

Thank you and good morning. Welcome to Boeing's third quarter earnings call. I'm Diana Sands, 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 will take your questions.

As always, we ask that you limit yourself to one question to be fair to others on the call. We have provided detailed financial information in our press release issued today and as a reminder you can follow today's broadcast and slide presentation through our website at boeing.com.

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

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

Jim McNerney

Thank you Diana and good morning. Let me start this morning with my perspective of our performance for the quarter and a look at the business environment as we see it today. After that, James will walk you through our financials and then we'd be glad to take your questions.

Starting with slide 2, our third quarter financial results were clearly dominated by the previously announced 787 cost reclassification and the 747 charge. But excluding those impacts, the double-digit margin performance of our two core businesses continues to be strong, even despite ongoing market pressures.

As we discussed in August, our decision to reclassify costs on the first three 787 flight test airplanes to R&D expense was based on our conclusion that those planes have no commercial market value beyond the development effort. The costs through September for those aircraft resulted in adding \$2.6 billion of R&D expense to the third quarter results. I will talk more about the 787 in just a few moments.

Earlier this month, we announced a \$1 billion charge on our 747-8 program, due to increased production costs and difficult market conditions. Because this program is in a loss position, costs associated with these factors were immediately recorded in the third quarter for future 747-8 deliveries.

When we began assembling the first 747-8 freighter in the third quarter, we encountered significantly more rework and disruption than we expected, both in our Everett factory and in supplier factories. The root cause is something we talked about in the past. The engineering on this program was late to mature and that was compounded by the limited availability of engineering resources. In addition, we've been working closely with our customers in what continues to be a very challenging cargo market. These discussions drove our decision to defer a planned increase in the 747-8 production rate, which was prudent but also contributed to the charge taken this quarter. We fully understand the issues at hand and action plans are in place to address them and smooth the production flow for the airplane moving forward.

Despite these challenges, we are making good progress on this program. The first 747-8 freighter is more than 90% assembled and the second is more than 80% complete. Power on has been achieved on both airplanes. Lessons learned on the assembly of airplane one are being applied to airplane three and the initial join and integration has improved noticeably with assembly now about 75% complete.

First flight of the freighter remains expected by early next year, with first delivery scheduled in the fourth quarter of 2010.

We are operating with better discipline on the 747-8 Intercontinental, the passenger model, where development is progressing well. 75% of the engineering is released on this airplane.

Now, turning back to the 787 program, we made significant progress during the quarter on the side of body reinforcement issue that delayed first flight this past summer. The 787 team is completing and validating this week the last detail design for the stringer modifications on our flight test airplanes and the static and fatigue test air frames. Installations of the fittings are proceeding and we are pleased with the progress we are making. We will retest the modification on the full scale static test air frame after its installations are complete. Once we are cleared for flight based on that test, we will repeat some gauntlet and taxi testing on airplane number one before flying. Flight test is still expected by the end of the year and the first delivery remains scheduled for the fourth quarter of 2010.

As we forecasted, there has been and continue to be some modest orders churn on the 787 but even so, the 787 backlog remains strong with 840 orders from 55 customers around the world. As you've heard me say in the past, we know that we can and must do better on our development programs and I am confident that despite our setbacks, we will get the 787 and the 747-8 through the flight test program and into the hands of our customers. Jim Albaugh, in his new role leading BCA, has been fully engaged with the programs, suppliers, and our customers on these development activities. Jim's seasoned leadership and extensive experience in engineering and manufacturing on complex programs is being felt across the board and will result in further strengthening of our team and the program management and functional disciplines needed to improve our development program performance.

Development programs aside, I remain extremely pleased with the focus of our commercial and defense teams on ensuring our core operating engine continues to run well. Production and services program in both BCA and IDS delivered solid results in the quarter. BCA deliveries remain on track for the year and the team continues to make progress on cost and productivity improvements to help offset a range of market and development program pressures.

During the third quarter, IDS delivered 34 production aircraft and two satellites, the third P8A achieved its first flight, and we achieved key milestones on directed energy programs. IDS is solidly focused on executing across its businesses.

The discipline we have maintained on cash management is also evident in our results. We continue to aggressively manage our infrastructure, costs, and investments. As of September, we have reduced our headcount by approximately 7,200 positions versus our November 2008 base line. While we are tracking somewhat short to our goal of 10,000 position reductions by years end, we expect to achieve and surpass that target in 2010.

Our prudent management of all discretionary and capital expenditures, coupled with successful debt offerings, has enabled us to invest in our development programs and maintain a solid financial position. We will continue to manage our business with the mindset of balancing financial strength and investing in our future growth.

Now let me turn to the market environment on slide three. The environment continues to be challenging in both commercial and defense markets. In April, we announced a reduction to our 777 production rate starting in June 2010 and we postponed rate increases planned for the 767 and 747. As mentioned earlier, in October we further deferred the increase in our 747 rates.

Consistent with these rate reductions and decisions, BCA accommodated about 85 airplane deferrals during the third quarter, in addition to the 130 they processed during the first half. The current backlog of deferral requests is about the same as it was last quarter.

There has been no change in our assessment that we can hold the 737 at its current production rate. We will continue to evaluate production rates based on market conditions and customer discussions.

Capital markets are gradually opening up for aircraft financing so our previous \$1 billion estimate of BCC financing this year has been reduced to about \$800 million. On the defense side, we continue to be actively engaged with our customers to work through their individual program needs amid growing budget pressures facing the U.S. Defense Department and other agencies. The vast majority of our programs are being well-supported in the budget process. We are particularly pleased with the strong congressional support of the C17 and FA18 programs. However, we do anticipate continued top line pressures on all defense programs.

Our strategy at IDS in this environment remains three-fold. To extend our existing programs that bring unmatched capability and affordability to U.S. forces, capture a healthy share of growing international defense and security opportunities, and continue repositioning or changing U.S. security priorities with investments in adjacent markets, including intel and cyber-security, unmanned systems, and services.

There is no doubt that both our commercial and defense businesses continue to face challenging times right now but

I also continue to see a solid foundation from which to work through these challenges with fundamentally strong products and services, a solid balance sheet, and a large backlog, which now stands at \$320 billion, nearly five times current annual revenues.

With that, let me turn it over to James who will discuss third quarter results and our outlook. James.

James Bell

Thank you, Jim and good morning. I will begin with our third quarter results on slide four.

Revenue for the quarter was \$16.7 billion, up 9% from a year ago. Last year's revenues were reduced by the strike and supplier production problems at commercial airplanes. Our reported net loss for the quarter was \$2.23 per share, which includes \$3.59 per share related to the 787 reclassification and the 747 charge. Underlying these impacts was solid performance in both IDS and the commercial production and service programs.

Now let's discuss BCA in more detail on slide five. Commercial airplanes reported third quarter revenues of \$7.9 billion, 13% higher than the same period last year, driven by last year's strike and supplier production problems. Third quarter year-to-date revenues included lower services volume of over 10% due to softening in spares and freighter conversions. BCA's third quarter operating loss of \$2.8 billion reflects the 787 cost reclassification of \$2.5 billion for costs incurred through July on the first three flight test airplanes, \$138 million of spending on those planes in August and September, and the \$1 billion 747 charge.

During the quarter, the company paid \$592 million in cash for the acquisition of [Vott] 787 facilities in South Carolina, which is reflected in the investment section of our cash flow statements.

Included in gross inventory is \$6 billion related to 787 work in process, supplier advances, tooling, and other non-recurring costs. This is down from the \$7.9 billion reported in the second quarter due to the \$2.5 billion reclassification to R&D and the reduction of \$416 million in supplier advances as a result of the [Vott] acquisition. 787 inventory also includes \$800 million of planned inventory build-up on the program and an additional \$187 million of inventory acquired from [Vott].

As previously disclosed, the 747 program \$1 billion charge includes \$643 million due to higher estimated production costs at both Boeing and supplier facilities. The remaining \$362 million relates to the challenging market conditions and the company's decision to maintain the 747-8 production rate at 1.5 airplanes per month for nearly two years longer than previously planned. As we work through our development program and market challenges, the remainder of BCA is performing well as it continues to focus on productivity and cost improvements. BCA booked 96 gross orders and 17 cancellations during the third quarter. BCA's backlog remains large at \$254 billion, representing greater than seven times current annual revenues.

Now moving to slide six and our defense business, IDS revenue was \$8.7 billion in the third quarter, up 3% from the prior year. Margins were 10.1%, reflecting the continued strong execution across IDS' broad portfolio of programs. The IDS backlog is \$66 billion, nearly two times expected 2009 revenues. During the quarter, \$3 billion was removed from backlog due to the termination of the man ground vehicle portion of the future combat systems contract. Additions to backlog included P-8 India, International Chinook, Intelsat Satellites, and U.K. modification contracts. The IDS team continues to perform well across its business and is on track to achieve its goals for 2009.

Now turning to slide seven – Boeing Capital delivered another solid quarter with pretax earnings of \$39 million on revenues of \$166 million. BCC's portfolio decreased from \$6.3 billion as of the second quarter to \$6.1 billion. This decrease reflects aircraft financing and other volume in the quarter totaling \$153 million, which was more than offset by portfolio run-off. Our guidance now assumes that BCC will finance about \$800 million of new aircraft and volume during the year.

Boeing Capital continues to evaluate the potential for debt issuance to help meet its cash requirements, which are primarily driven by debt maturities. BCC is fortunate to have good access to the debt markets at reasonable rates.

Unallocated expenses increased this quarter as compared to last year, driven by higher deferred compensation expense and workers' compensation adjustments, somewhat offset by lower unallocated pension expense.

We continue to expect unallocated expense to be approximately \$700 million in 2009 with other segment expense forecasted to be about \$200 million.

The third quarter included higher interest expense and lower other income due to higher debt levels and lower interest earned on cash balances.

Now let's turn to slide eight and discuss our cash flow. We generated \$1.2 billion of operating cash flow, which reflects continued discipline in working capital management. During the quarter, we did not acquire any of our shares but paid approximately \$300 million in dividends.

Turning to slide 9, our financial strength remains solid. We ended the quarter with \$6.6 billion of cash and marketable securities, which reflect the strong operating cash flows and an additional \$1.95 billion of new debt offset by the acquisition of Vott 787 South Carolina facility and payment of the [C-launch] guarantee. On July 1st, we paid the entire \$448 million due under the [C-launch] bank guarantee. We have rights to partial reimbursement from the other [C-launch] partners and in September, we reached an agreement with one of those partners to receive payments totaling \$122 million beginning in 2009 and ending in 2010.

Turning to slide 10, our financial guidance is now updated to reflect the 787 cost reclassification and the 747 charge. 2009 earnings per share is expected to be between \$1.35 and \$1.55 per share, with revenues of \$68 billion to \$69 billion. The 2009 commercial delivery forecast remains between 480 and 485 airplanes.

2009 operating cash flow remains at greater than \$2.5 billion.

Looking forward, we have pressure on -- we will have pressure on our 2010 cash flow as inventory continues to build on the 787 program. We expect that cash flows will improve in 2011 when we deliver more 787s and the 747-8s.

Our 2009 guidance still assumes a cash contribution to the pension plan of \$500 million in the fourth quarter.

Mandatory pension funding in 2009 remains at less than \$100 million. Year-to-date pension assets returns have been strong at approximately 14%, but discount rates have declined by about 50 basis points since year-end.

As we consider our overall pension status and our cash position, we are evaluating an option to make a discretionary pension contribution in stock rather than cash later this year. If we do decide to contribute stock, the amount of the contribution could exceed the \$500 million currently assumed in guidance.

While we recognize contributing stock would have a dilutive impact to existing shares, there would also be a net cash benefit to the company and lower future pension expenses.

2009 pension expense is expected to be about \$900 million, with slightly more than that recorded at the business units and a small offset in the unallocated segment.

The R&D expense forecast is now \$6.6 billion to \$6.8 billion, which reflects the reclassification to R&D of costs for the first three 787 flight test aircraft of approximately \$2.7 billion, which includes \$2.5 billion through July, \$138 million spent in August and September, and an estimated \$100 million of spending in the fourth quarter.

R&D and guidance also includes the operating model adjustment we discussed in August to better balance future 787 R&D efforts between Boeing and our suppliers. The 2009 forecast includes approximately \$1.1 billion of R&D at IDS, which is higher than our prior forecast, driven by additional investments to support growth.

2010 R&D expenses will be higher than we thought at the beginning of this year due to the 787 operating model adjustment and the schedule slide announced in August. The remaining spending on the first three flight test airplanes is expected to be approximately \$100 million in 2010. We will provide more detail when we issue guidance in January.

2009 capital expenditures are now expected to be approximately \$1.3 billion and that's down from our prior forecast of \$1.4 billion.

Let me summarize the EPS changes we made in our forecast on the next slide. In first quarter, we updated EPS guidance for market factors impacting our escalation forecasts. This quarter, we've included the 747 charge, the 787 cost reclassification, and higher R&D due to the BCA operating model adjustment and additional IDS spending. Embedded within this guidance is productivity and performance at BCA that is offsetting commercial service market softening.

Now I will turn it back to Jim who will give you some final thoughts. Jim.

Jim McNerney

Thanks, James. To close, let me just say again that the fundamental operating engine of this company is running well. We are making progress on our commercial development programs and I continue to believe that when we emerge from these efforts and the current market challenges, we will be a stronger company that is offering the right products and services and better positioned to grow and improve financial performance over time.

With that said, we would now be happy to take your questions.

Question-and-Answer Session**Operator**

(Operator Instructions) We'll first go to the line of Doug Harnett with Sanford Bernstein.

Doug Harnett - Sanford Bernstein

Next year after you are through first flight on the 787, hopefully this year, you'll have a lot going on. You've got 747 and the 787 flight test programs going in parallel. You are going to be in production on both planes ahead of first deliveries. Could you talk about how you are thinking about managing this in terms of the resources you need to conduct two parallel flight test programs? And then also the number, how you are thinking about the number of airplanes that you will be completing prior to first delivery toward the end of the year?

Jim McNerney

First of all, we are looking forward and delighted at the prospect of having both of those airplanes in flight test program. Now, as you pointed out, there is significant overlap and the management challenge is not insignificant. I think we've done a couple of things organizationally to help this. We have recently cored up a number of our flight test organizations into one, which is going to allow us greater flexibility and greater co-mingling of the two schedules on an organized way. That's going to help us. We have long anticipated this overlap, so we have had plenty of time to think about it. I think we are helped by the fact there is only one engine on the dash 8, which necessitates fewer planes and less data. So I think a combination of planning, organizational approach, and the number of engines involved makes this doable. The big picture is that we will be doing it.

You asked -- you also asked a question about inventory build. I think, James, you have a comment on -- I know we haven't -- don't have specific guidance out there next year but maybe James can give you some flavor.

James Bell

I think what you are asking was about how many airplanes we'd have completed by the time we delivered, started delivery. We will probably have around 30 or so in the system at that stage.

Doug Harnett - Sanford Bernstein

Okay, great and just on -- Jim, on your comment, when -- are you having to get more resources to do these two flight test programs together, or is this possible to do within your existing organization?

Jim McNerney

I think the concept behind coring up all the flight test programs across our company into one organization really in essence frees up flight test capacity that heretofore had been decentralized and uncoordinated. As a result, I don't think we have to add a lot of resources, even though the management challenge is significant.

Doug Harnett - Sanford Bernstein

Okay, great. Thank you.

Operator

Your next question comes from the line of Robert Spingarn with Credit Suisse.

Robert Spingarn - Credit Suisse

A 30,000 foot question, if I may – Jim, you've clearly acknowledged the challenging environment on both sides of the business. You've talked about the budget pressure at IDS and your three-pronged strategy there to offset. But then we have an environment where BCA rates are declining on 777 a bit, and flat at best on 737. The two new programs are coming out of the gate at zero or low margin, I think we would suspect. So the question is unless R&D declines materially, how do you grow earnings over the next three to four years, especially with the prospect of a pension headwind?

Jim McNerney

Well, I think the – there is no doubt – two things – there is no doubt about two things. One is when we get to an end state, we are going to have a more competitive company and what does that look like? Well, it's an IDS business reshaped to a certain degree as the customer asks for different kinds of goods and services but a solid double-digit basis going forward, and obviously you can see the market share gain potential associated with both the 787 and the 47-8 on top of two rock solid 737 and triple 7 production programs.

The challenge, as you point out, is getting through the next couple of years and I think that gets down to executing our plan, and the plan over the next few years, and we haven't given guidance, so we haven't detailed this for you, is get these planes in the flight test program, work with our partners on gross margin improvements for both of us, and at the same time, reduce R&D significantly since we don't have an imminent new program in front of us. And how that equation all balances out, it's a good question you are asking, we are confident that it may look a little better than your question implies but that will be provided first – you'll get a first look at that when we do some – provide some guidance for you as we move into next year.

Robert Spingarn - Credit Suisse

Jim, without pushing too far on this, is it fair to say that the real levers though are a few years out and that we are really no better than flattish here in the near-term?

Jim McNerney

Well again, I don't want to make a comment that could be construed as guidance. I think the – I think a – the diversity of our company, which is a defense business that has shown an ability to deliver greater than industry average margins, combined with a triple 7 737 program that still has growth and margin opportunity in front of it can absorb some of the what I would call near-term pressure and on top of that, we are hard at work on improving the profitability of the two development programs.

Now again, when we are comfortable pulling that all together for you, we will do it. But it's – I think this discussion you and I are having, it does identify the levers. I just want to assure you that we are just not going to accept these pressures.

Robert Spingarn - Credit Suisse

Okay, thank you.

Operator

Your next question comes from the line of Heidi Wood with Morgan Stanley.

Heidi Wood - Morgan Stanley

James, a question for you – as we compare the business case to now, to solve for revenues and think about the cost, is it correct for us to think about two layers of 787 profit, the original margin assumption at the launch of the program and secondly better-than-expected pricing versus the normal launch discounts? But I'm – it's a little bit long, James, so I'm going to continue the questioning before you answer it, but as I'm thinking about it, atop the positive or better pricing, 787 revenues can probably only grow 3% a year, if you get escalation but realistically could be flat. But the math of the 10 years from 2004 to 2014 means that that 30% to 35% launch customer discount erodes because the business case includes escalation, whereas the actual realized case has better pricing but no escalation. So by 2014 or so, those two are caught up, aren't they?

James Bell

Well, I'm not sure if 2014 is where all that comes together but I think --

Heidi Wood - Morgan Stanley

But they are converging, right?

James Bell

I think they will converge and the fact of the matter is that as we continue to see how this plane operate and sell into a future market, I think we have an opportunity to get better pricing.

Also, as Jim mentioned, we'll be working on the cost side of this equation and I think that there is still a significant opportunity in that area too.

Heidi Wood - Morgan Stanley

But on the two layers of profit then, we lose that latter one and we go back to the original margin assumptions on the business case minus two to three times higher R&D, supplier claims higher labor costs, higher raw materials, et cetera -- is that the right way for us to be conceptualizing what you are seeing?

James Bell

Well, I think the right way to look at the challenges facing us is clearly as we work our way through the development program, we are seeing claims of higher costs. We have not yet negotiated our way through and settled all those but we do believe, even in those claims, Heidi, there's an opportunity to do better. So we'll continue to work that.

Heidi Wood - Morgan Stanley

Okay, great. Thanks very much.

Operator

Your next question comes from the line of Ron Epstein with Banc of America Merrill Lynch.

Ron Epstein - Banc of America Merrill Lynch

Probably a 200,000 foot question -- when you think about the airplane development process at the Boeing Company, there is a long history of getting airplanes out nearly on time. And we had 787 and kind of what's happened there and now recently 747-8. I mean, Jim, can you give us a feel for what's wrong, what's broken, what happened, how are you going to fix it? Because it's really the root of everything that is kind of not going right right now.

Jim McNerney

Well, I think the industry got a little overheated. Are we really at 200,000 feet? If we are, I'll offer -- I'll give you that view. I mean, I think the industry over the last 10 to 15 years got a little overheated and I think base lines were set up that were very aggressive. In our case, on top of a very aggressive base line, there was significant outsourcing of both manufacturing and engineering at the same time we were dealing with a new material, new design tool. So we experienced a bridge too far leading edge kind of development, which is what we are trying to recover from right now. And I think the seeds of the -- and you'll be hearing more, by the way, on this subject from Jim Albaugh and I going forward but the seeds of performance improvement are going to lie in places where we didn't do as well as we should have. One is in realistic base lines that don't try to stretch into sort of market performance that is unrealistic, at the same time remain competitive, obviously. Our competitors also had trouble with some over-reach. I think the technical and engineering oversight of programs, we have not had that balance right and when we outsource some of the engineering, that compounded the oversight process. We need to bring some more of the engineering, particularly at the systems level, back into Boeing and we need to provide better oversight of it, and so we are spending a lot of time talking about how to re-strengthen our engineering management process, shall we say.

And then the other thing is greater visibility on partner supply chains and on their MRP -- in other words, IT systems. The seeds of that are already in place in Everett as we've stood up a [pit] team that is managing across corporate boundaries, sort of at the program level with all of our partners, greater visibility, anticipation of issues, whether it's chasing down parts or whether it's process issues in factories. These are things -- so we started the process. This

list that I just gave you is probably doesn't totally shock you in the sense of it sounds like business practices that in some cases we should have been pursuing but when you look back, you see that we lost some of the discipline, particularly within the context of outsourcing so much of the work. So we've got to rebalance that and refocus on what successful programs are all about. And Jim Albaugh is the guy in the industry who has managed more technically difficult programs of anyone in the industry and he and I will be working together on that.

Ron Epstein - Banc of America Merrill Lynch

Is there an engineering shortage within the company?

Jim McNerney

I think -- the quick answer is no. I think the experience we had on the 47-8 as I acknowledged in my comments, was more a result of both the 87 and the 47 reaching their engineering peaks at about the same time, even though we had originally planned to have the peaks be complementary rather than overlap, but because of the delay in the 87, that didn't work out and so our manpower planning was -- the plan was confronted with a different reality than it anticipated, and so it was more that than recruiting engineers. We still hire a lot of engineers and when we make an offer to 10 people, nine-and-a-half of them accept coming to work for our company, so we've -- we -- it's more an issue of reality getting in the way of planning, quite frankly, and we've got to fix that too. We've got to be better at managing surge capacity because things do not always go as they are planned.

Ron Epstein - Banc of America Merrill Lynch

Great, thank you.

Operator

Your next question comes from the line of Cai von Rumohr with Cowen & Company.

Cai von Rumohr - Cowen & Company

This is for James -- if you take your pension guidance and we close the year about where we are, it looks like you kind of end up with maybe under-funding of about \$9 billion going into next year. Maybe give us some thoughts as we think about 2011 and 12 in terms of where the pension expense is going to go and where your funding requirements are going to go and how you plan on meeting them?

James Bell

Well, I think we've already said that we expect it to go up a tad next year. I mean, we do believe that it will be higher than this year, based on that asset performance and obviously we are looking at ways to today mitigate what that turns out to be but -- clearly it's going to be today, given what we see the pension expense would be higher than it is today, or it's going to be this year but -- with the mandatory funding requirements being low, we have to make a decision as to how we want to deal with that going forward, so it won't be mandatory that we put cash in. It will be discretionary but we'll be taking a look at that because obviously we want to manage two things -- we want to manage how much cash we put in and we also want to manage the impact of the expense to earnings.

Cai von Rumohr - Cowen & Company

But when you get out to 2011, isn't the number something like \$2 billion, so it's a very large number as we move out and while it's not a large mandatory number next year, you know, you kind of have to have some kind of plan so --

James Bell

Are you talking expense or are you talking --

Cai von Rumohr - Cowen & Company

Contribution, contribution.

James Bell

Contribution, okay, and it's probably 2012 is more where it would be and obviously we have to be looking at that and seekingalpha.com/.../167961-the-boei...

as I mentioned in my remarks, we are looking at alternative ways to fund our pension plan and thinking of doing that yet in the fourth quarter, that would help to mitigate some of what we would see in the out years.

Cai von Rumohr - Cowen & Company

Okay, thank you.

Operator

Your next question comes from the line of Joe Campbell with Barclays Capital.

Joe Campbell - Barclays Capital

Good morning. I wanted to ask about the supplier claims and how you are working through these, and while I know you I don't want to ask about specific ones and you probably wouldn't answer if I did but what I am wondering about is what is the nature of the way in which you take these claims? I mean, many of these big guys have claims that are \$1 billion or certainly high hundreds of millions. And how do you settle the fact that the early ones are just going to cost lots more than anybody ever envisioned without getting signed up, since you outsourced all this stuff to having all of the unit costs rise? I remember the CFO of the program early on said well, if anything ever goes wrong with the unit price, head for the hills because they are all outsourced.

James Bell

Well, first and foremost, Joe, we haven't defaulted to the conclusion that we are going to -- they are going to be higher than anticipated on the front-end of this program. Clearly in the -- in our current --

Joe Campbell - Barclays Capital

Excuse me, James -- you don't think that the cost of building the first few planes or the first 50 planes after all the changes will be higher than anticipated?

James Bell

Yeah, the costs are -- you asked about the [claims] [inaudible] -- the claims, and so we've assumed already what those are in those higher cost of those airplanes and yes, we've dealt with that on the front-end. Going out, obviously we'll have to -- we will look at every one of these claims that have been provided by the subcontract community and go through a detailed cost evaluation of them, and do an analysis on them. But we think that what we have seen today, we have a pretty good handle on what those are and what the entitlement should be relative to those and for the most part, we have looked at settling better than what we have assumed in our cost base assumption, so we'll continue to work them, Joe. Obviously that continues to be an issue we'll have to address and one we are putting a lot of priority on.

Joe Campbell - Barclays Capital

Well, the question I have is not whether you have got some number for them -- I'm just trying to get a sense of if the suppliers say that a part doesn't cost X but it costs 1.5X to build, how do you work it out with them? They don't have contracts for the dash 9. They don't have any contracts for 10 a month and they don't have a contract that's for the part that you now want them to build -- they have a contract for a part that doesn't exist anymore.

James Bell

Absolutely, Joe, and so that is also an opportunity and helping them figure out to do that part more cost effectively. Also, the fact that what they are looking at on the front-end doesn't really project what we believe might be the inaccurate learning curve on them, so we have an opportunity to go work that. Obviously that is an open issue that we have a lot of attention focused on but clearly we see it two ways -- I mean, obviously we have to work our way through it but it doesn't mean that the initial claim that they have put forward is what we will ultimately settle on.

Joe Campbell - Barclays Capital

No, you're still not getting the -- so I mean, if the first parts cost lots more, forget -- I'm trying to figure out how do you get to assuming that the -- I mean, if you start on a learning curve, if the first parts cost 50% more than you thought,

how do you get that the average cost is unchanged?

James Bell

Well, we didn't -- we've never said that the average cost was unchanged. We have said to you that we've gone through and evaluated and we have an estimate in there where we think we will end up based on the fact that we are working with new materials and we have a pretty good appreciation now of what that is and we obviously recognize the fact that up-front, that these costs were more expensive on the first few airplanes but Joe, we're talking a lot of airplanes here that we believe the market here is going to buy on this particular model and we have an opportunity over that time period, it's a lot of airplanes and a long time, to improve this performance. And based on our past experience, we have -- we believe we have been able to demonstrate our ability to do that.

Joe Campbell - Barclays Capital

Do you think we'll settle these things by year-end? These guys are mostly public companies.

James Bell

Absolutely not. I think we will settle some as we have settled some but this is going to be a process that goes out for a few years.

Operator

Your next question comes from the line of Itay Michaeli with Citi.

Itay Michaeli - Citi

I wanted to switch over to IDS, specifically on margins -- really two questions here. One, has your confidence around sustaining a 10% margin changed at all, given the top line pressures you alluded to earlier? And then secondly, if you could just maybe walk us through what you are looking for for Q4 margins at the three sub-segments at IDS?

James Bell

I don't think our confidence has changed. Obviously it's going to be more challenging as the volume has decreased as the government goes through and wrestles and has wrestled with their changing priorities, and we saw that in some of the segments where the -- clearly the volume has gone down, that's affected total profitability. We also experienced this quarter in a contract adjustment a lower margin than that work normally has taken. We've gotten on it before and so we have to work through that and that was sort of an artifact of how late we were able to finalize the contract negotiation on a particular change in the -- particularly in the support business.

But overall, we think that we still have an opportunity to maintain our double-digit growth margins in the defense business and that is what the team is focused on doing through a combination of continually driving productivity and also the negotiation of contracts going forward to make sure we have a profit opportunity that would allow us to deliver on that double-digit margin commitment.

Itay Michaeli - Citi

Great, and then just on the fourth quarter, what should we expect GS&S margins to kind of revert back or --

James Bell

Yes, absolutely. That's where the contract adjustment, that's a one-time adjustment. We would expect them to be better in the fourth quarter.

Itay Michaeli - Citi

Okay, great. Thank you.

Operator

Your next question comes from the line of Howard Rubel with Jefferies.

Howard Rubel - Jefferies

Jim, normally when you put in the new manager, oftentimes you put in the new manager, you might very well give them a free pass to have everybody come forward and offer confessions of past sins. The platform is burning a little bit this time. Is Mr. Albaugh still going to be in a position to be able to offer up opportunities to come clean for BCA?

Jim McNerney

Well, look, I mean, we are all on the same team. We're not on different teams, okay? Jim Albaugh and I and the whole executive team have been working together and there's probably more sharing across the top of this company as we focus on problems in one business or one function than you would probably imagine. So Jim was not unknowledgeable of the issues at BCA that we are wrestling with, and therefore he is not startled by what he is seeing and the challenges and the opportunities. So he probably was a little more in the flow because of the way we run the company than somebody who had been plopped in from zip code A to zip code Z and had an oh my god period to go through, okay?

Now, having said that, there's a human tendency obviously to take a fresh look at things but I think in Jim's case, his experience and as he relates to me, is as much about the opportunities as the issues. But he does have a tiger by the tail getting the 87 completed and delivered and the same with the 47-8, and we are 100% focused on trying to knock down the issues and move forward.

Howard Rubel - Jefferies

I mean, I think you totally answered the question whether we are going to see that or whether in fact has there been a slip on the 787 schedule from the last time you spoke with us, even though you still may be able to deliver the airplane by the end of the year, for first flight?

Jim McNerney

I think our comment and our plan has always been by the end of the year and that's where it is today, and Jim and I probably talk about it daily.

Howard Rubel - Jefferies

And we get blogs daily too, so anyhow, I appreciate that. I mean, you know, and I -- I mean, there is an element of frustration that you want to feel like you are chasing down every little nugget in terms of a move here and so what you are saying is that the schedule that you laid out a while ago with respect to the fix and in terms of implementing these changes is unchanged from where it was the last time you spoke with us?

Jim McNerney

The schedule changes every day, okay? In the sense of problems come up, we've got to deal with them, there's opportunities to come up, we've got to deal with them. And the original guidance we gave about flying this year anticipated that process and that is the process we go through and as you add it all up, we are still on track to fly by the end of the year.

Howard Rubel - Jefferies

Thank you.

Operator

Your next question comes from the line of Joe Nadol with JPMorgan.

Joe Nadol - JPMorgan

I had a very similar question as Howard but maybe just a little bit different angle on it -- Jim came in on September, Jim Albaugh came in on September 1. One would expect he is conducting this big talked about review. He has taken ownership now of the 747 schedule effectively with the announcement earlier this month. So Jim, on the 87, and I'm thinking less about the blogs and the wing body joint fix but more about the delivery schedule and the flight test schedule. Has he expressed to you any apprehension about what is still a fairly less aggressive than it was a year

ago but still a fairly aggressive flight test program? And any sentiment about pushing that up a little bit, even if you get the plane in the air by year-end?

Jim McNerney

Listen, I mean, he has accepted the flight test program and the production program. Look, I think he views it the same way I do, which is that the flight test program can produce issues that we have to deal with and if it does, we'll deal with them. So I think he and I are both concerned at the same level there, which is the normal level of concern as you go through testing.

But Jim didn't come into the job and then come to me and say hey, Jim, we're four months out of bed on the flight test program, or hey, Jim, we can't make airplanes as fast as the team the minute before I got here said they could. We haven't had that. What we have had is focus on work and focus on getting it done.

Joe Nadol - JPMorgan

And James, just on the R&D, understood the three aircraft, you gave good numbers there for the fourth quarter and next year -- just the change in the R&D model, any way you can help us understand what that might do to your R&D for the full year next year?

James Bell

No, we'll have to give you that in January when we update '10 guidance but clearly it obviously would have been higher than what we thought it would have been at the beginning of this year, Joe, but we'll give you more color on that in January.

Joe Nadol - JPMorgan

Okay, and you said \$0.25 for the year and that's basically for half a year this year, so if we double that, is that --

James Bell

Pardon me, would you repeat that?

Joe Nadol - JPMorgan

Yeah, you said \$0.25 in the EPS walk for this year and you changed the model around mid-year.

James Bell

Yeah, but remember a lot of that work will be over -- a lot more of the work will get done in '10 than you see in '09, so you can't just automatically assume that the '09 effort would be what the '10 impact would be but again, just know it will be a little higher than what we -- it will be higher than what we thought it would be earlier this year and we will give you that color in January.

Joe Nadol - JPMorgan

Okay. All right, thank you.

Operator

Your next question comes from the line of Robert Stallard with Macquarie Research.

Robert Stallard - Macquarie Research Equities

Jim, you mentioned that you saw 85 deferrals in the third quarter at BCA. I was wondering, has this made you any more or less confident on the projected build rates for the 737 and the triple 7 moving into next year?

Jim McNerney

Well, I think the risk to the triple 7 has been taken into account with the production rate change that we announced earlier, and the deferrals and discussion is about what we thought it would be and have anticipated. On the 73, the

deferral rate, the requests have stayed about the same, which is what we anticipated and we just don't see, when you add it all up, when you -- customer by customer add it all up and an overall trend that is not worsening significantly at all, financing markets are actually getting more robust, which I suppose is a plus moving forward. We just when you add it up airplane by airplane, customer by customer, we don't see a need to change the 737 rate.

Robert Stallard - Macquarie Research Equities

So you are still very confident on the 737 rate but how much has the flat rate in 2010 been at the expense of pulling demand forward from out years like '11 and '12?

Jim McNerney

How much is -- say that again? You're saying --

Robert Stallard - Macquarie Research Equities

-- pulling forward demand.

Jim McNerney

Again, the -- actually the deferral pressure moves the other way. I mean, the deferral pressure tends to move incrementally more planes out rather than pull them in, even though there are some pull-ins, as people opportunistically want lift. So I don't see us pulling demand into '10 out of '11 and '12 when you look at the net impact. I see probably a little -- and I don't have the numbers in front of me specifically but I think I am right -- I see incrementally more moving the other way, so the fact that we feel comfortable holding it in '10 is a sign of strength within that context.

Robert Stallard - Macquarie Research Equities

And just finally on this, many of your suppliers seem to be very skeptical of your ability to hold production flat. Are you a little bit concerned that if you do keep things flat, they may not be able to keep up?

Jim McNerney

Well, our suppliers -- and I was one in one life, so I understand how they feel, but I think they are recently heartened by the recent change, I would say the gradual thawing of the capital markets over the last six months, the active engagement of XM, some increase in capacity there, same thing in Europe. We try to give them visibility. I am sure they will tell you that we don't give them enough. I get that but I don't think there is any supplier out there that has a hardwired plan to -- that anticipates production rates coming down. If you know of any, please shoot me an email and I'll go deal with it.

Robert Stallard - Macquarie Research Equities

Okay, thank you.

Operator

Your next question comes from the line of David Strauss with UBS.

David Strauss - UBS

Just a follow-up to Rob's question, obviously with these deferrals, unless you are over-booked, you are having to pull customers forward to fill in those slots. Are you having -- are you seeing it more difficult to actually pull customers forward to fill in these slots?

James Bell

No, actually what we have is the over-solds that are coming down in to fill in for those that are getting deferred out to the right. And remember, our production rates are based on the backlog that we have where we have under contract, it says we have delivery commitments over a period of time and that fundamentally is what is driving the rate and that order book is [inaudible], and so that is why we are where we are and then as we do the deferrals, we continue in the out years as we get, have opportunity to oversell over the -- what our current backlog would require us to deliver in those periods and so when we get into the deferral discussions, we move those airplanes out that the customers

those periods and so when we get into the original discussions, we move those airplanes out that the customers want to defer and we move into those spots those over-solds.

David Strauss - UBS

So James, could you just give us an update where you are from an over-sold status on '10 and '11? I thought for '10 you were kind of even with planned production rates. I didn't think you were still in an over-sold --

James Bell

In '10 we're solid, so we're not having a lot of debate and discussion around deferrals for '10. It's now we're -- it's moving out to '11 and subsequent. So we are in pretty good shape there. We still have some over-solds in '11, and so we still have some flexibility in having that dialog and discussion around what would be appropriate relative to a customer wanting to defer.

Now in '10, we're about a lead time away for most of the year and so those are different discussions if someone comes to us today on '10, we'd have to have consideration to deal with that but basically '10 is solid.

Diana Sands

Operator, we have time for one more analyst question, please.

Operator

Your next question comes from the line of Troy Lahr with Stifel Nicolaus.

Troy Lahr - Stifel Nicolaus

I'm wondering if you guys could just update us again on the timing of all six test flight aircraft for the 787, when they will be up in the air. And also, is the marketability for the three remaining test flight aircraft, I mean, are you still confident that you can get those sold?

Jim McNerney

The last assessment on the last three test airplanes are that we feel they are marketable. That assessment is consistent with the assessment we made earlier this quarter. That hasn't changed. The -- I will have Diana call you with the specifics of the six airplanes. If I try to give you dates on all six, I will screw up one or two of them, so -- but they are as we have anticipated and are consistent with the flight test program. But it's basically every month, every month after first flight a new one comes in. I don't want to say anymore than that and Diana will -- Diana's team will fill you in on that specifically.

Troy Lahr - Stifel Nicolaus

Okay, but so by June though, all six should be in the air, you think?

Jim McNerney

Yes, I mean roughly, every month starting here in the fourth quarter.

Troy Lahr - Stifel Nicolaus

Okay. Thank you.

Jim McNerney

You're welcome.

Operator

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

Tom Downey

Thank you. We will continue for a few minutes with the questions for Jim and James. 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 limit everyone to just one question please.

Operator

Your next question comes from the line of Susanna Ray with Bloomberg News.

Susanna Ray - Bloomberg News

I've just got a question about the level of deferrals, if you could just -- you mentioned that 2010 is solid. Does that mean you are sold out for 2010 and you don't have any open spots left? And will that level then be the same, the deferral level, will that be the same as 2009 then, is that what you are saying?

Jim McNerney

What we are saying is two things -- one that 2010 is sold out, and the level of deferral -- and deferrals remember are not cancellations. These are moving planes, either out or in, usually out. That discussion which is ongoing, that level of discussion is staying about the same as we've experienced over the year. It's not getting worse, and that we have enough over-solds in the pipeline to accommodate those deferrals. That's what we are saying.

Susanna Ray - Bloomberg News

Okay, and would the level of cancellations in 2010 be about the same as 2009 as well?

Jim McNerney

I don't believe there were any cancellations here in the quarter but let me double --

Susanna Ray - Bloomberg News

I'm sorry, I mean for the year.

Jim McNerney

For the year, I will get you the number of cancellations as -- we'll call you back with that. It's a modest number.

Susanna Ray - Bloomberg News

But will it be about the same or are you expecting --

Jim McNerney

I don't want to say it. What I want to do is have Tom's team call you back just to be sure.

Susanna Ray - Bloomberg News

Got you, okay. And one more quick question about job cuts, you mentioned job cuts above that 10,000 figure. Can you give us a sense of what magnitude you are considering?

Jim McNerney

We are working through that right now. It will have to do with reshaping of defense programs as the defense budget, which is under pressure, sorts through its own pressures and then it makes its way back to defense contractors such as ourselves, and ongoing market pressures in BCA, which tend to relate more on the services side.

Susanna Ray - Bloomberg News

Okay, thank you.

Operator

Your next question comes from the line of Anne Keeton with Dow Jones.

Anne Keeton - Dow Jones

I have a tanker question -- there has been some talk in the marketplace that Boeing has an advantage in this competition. Could you just discuss this situation generally for us and let us know what your feeling is on tankers?

Jim McNerney

Is there a specific issue, Anne, that where we have this purported advantage, or are you asking me an open-ended question?

Anne Keeton - Dow Jones

It's kind of open-ended but I guess it's based on what came out in the initial RFP.

Jim McNerney

Well look, I think the -- what you may be referring to is that our competition somehow feels that we have some information coming out of the last protest environment about them that they don't have about us. I'm not sure what they mean, okay, and my suggestion would be that you talk to the -- to our customer, if that's what you are referring to.

If you are referring more broadly, listen, we're sorting through the RFP now. We will have some comments where we think the RFP can be improved, and I have no idea, to be honest with you, whether that advantages or disadvantages us at this standpoint but we are taking a hard look at it. I think the only thing I would say is the recent WTO ruling is one where we think the playing field is not level, basically because the ruling, at least as people have described it, point to virtually every airplane that Airbus has developed being the result of a subsidy, which including the A330, and that that should enable them to take more risks during the competition than I can take as a purely commercial operation. And so that is one area that we are probing very heavily.

Anne Keeton - Dow Jones

Okay. Thank you.

Operator

Your next question comes from the line of John [Austraer] with Flight International.

John Austraer - Flight International

A question for you about -- you know, we kind of come back to hearing different things about [change] of schedules, whether it's from online news media or the financial community, and we kind of then get these very confident declarations from you guys about the status of the pace of the program. Are you guys willing to stake your leadership on this? I'm just trying to get a sense of where the buck stops after six delays here.

Jim McNerney

Listen, you're breaking up a little bit. I think you may be on a wireless device. We didn't hear all of the question. Could you try one more time?

John Austraer - Flight International

I'd be happy to. I was saying every several months we hear a very confident declarations from Boeing regarding the pace of the program and the updated schedules and I'm just trying to get a sense of when we start to hear that things maybe are not going on schedule, just trying to get a sense from you guys where -- are you guys willing to stake your leadership of the company on this? Where does the buck stop ultimately?

Jim McNerney

Listen, we are all -- I assume you are talking about the 787 program and --

John Austraer - Flight International

Yes, I am.

Jim McNerney

Yeah, and the entire leadership of the company plays a role in getting this program done and out to our customers. It has been a difficult program. It has been technologically innovative, new to the world in its characteristics, and we all wish that the program had gone more smoothly and I think we all share responsibility in it not going as smoothly as we want. But we are also going to share responsibility in its ultimate success when we get there. So we are a team going after this thing.

John Austrauer - Flight International

Thank you.

Operator

Your next question comes from the line of Mike Meacham with Aviation Week.

Mike Meacham - Aviation Week

I just want to switch to an upselling issue and that's the choice for a second 787 --

Tom Downey

Mike, you are fading out. Can you come through a bit stronger?

Mike Meacham - Aviation Week

Sorry, I wanted to ask about decision process on the second 787 line. First question is are we really talking about a choice of two different places or are there still multiple locations? The two places being South Carolina and Everett, or are there still multiple locations under consideration?

And then second, are you moving forward that you expect the decision to be announced relatively soon?

Jim McNerney

Yes, we started with a pretty broad playing field on the second line consideration but we are really down to Everett and Charleston as the choice. We are sorting through that right now and you should expect a decision over the next couple of weeks.

Mike Meacham - Aviation Week

Okay. Thank you.

Operator

Your next question comes from the line of Dominic Gates at The Seattle Times.

Dominic Gates - The Seattle Times

On the same subject, you gave an intriguing indication earlier in the remarks to the analysts that you and Jim Albaugh would talk to us later, perhaps after the turn of the year, I would expect, when he is settled in a bit, about how things will be handled differently in BCA in the future, in terms of the problems that have arisen over sourcing of engineering and all of the things that culminated in the delays that you have had. But as you just pointed out, before you give us that indication of where you strategically go in the future, within the next couple of weeks you are going to make a decision on the second line. And so I want to ask why a lot of people see the idea of putting a line in Charleston so that you would have assembly lines on opposite coasts, see that as a decision that doesn't make a lot of business sense because it -- because it adds tremendous risk and tremendous duplication. So the question is why would you do that now, having had all these problems with this new program, why would you introduce the risk of separating assembly lines to opposite coasts?

Jim McNerney

It's a fair question, Dominic. There would be execution challenges associated with that choice but keep in mind that we've got a pretty good-sized operation down in Charleston today. And there would be some duplication. We would obviously work to minimize that. But I think having said all of that, diversifying our labor pool and labor relationship has some benefits. I think the union and the company have had trouble figuring it out between themselves over the last few contract discussions and I've got to figure out a way to reduce that risk to the company. And so some of the modest inefficiencies, for example, associated with the move to Charleston, are certainly more than overcome by strikes happening every three or four years in Puget Sound. And the very negative financial impact of the company, our balance sheet would be a lot stronger today had we not had a strike last year. Our customers would be a lot happier today had we not had a strike last year, and the 787 program would be in better shape had we not.

And I don't blame this totally on the union. We just haven't figured out a way -- the mix doesn't -- isn't working well yet. So we've either got to satisfy ourselves that the mix is different or we've got to diversify our labor base.

Dominic Gates - The Seattle Times

And if the union goes along with your request to them to come to some kind of no strike deal, does that mean you definitely keep it in Everett?

Jim McNerney

Listen, Dominic, the discussions and the decision-making is ongoing right now. I really -- the discussions are confidential and the decision-making will be as rational as we can make it.

Dominic Gates - The Seattle Times

All right, thanks.

Tom Downey

Operator, we have time for one last question, please.

Operator

And that will be from the line of Steve Wilhelm with the Puget Sound Business Journal.

Steve Wilhelm - Puget Sound Business Journal

I just wanted to follow-up on one question a little bit more -- can you just characterize or give some color about the discussions, you know, how often they are, just what the tone of them is with the union?

Jim McNerney

Steve, the discussions are -- you are referring to discussions in Puget Sound?

Steve Wilhelm - Puget Sound Business Journal

Yes, and related to the second line.

Jim McNerney

Yeah, I would say the discussions are occurring on a regular basis. I would say the tone is constructive and we will see what it produces.

Steve Wilhelm - Puget Sound Business Journal

Okay.

Tom Downey

That concludes our earnings call. Again, for members of the media, if you have further questions, please call our media relations team at 312-544-2002. Thank you.

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EXHIBIT C

BOEING LIMITED

787 Second Line Questions and Answers 10/28/09 – Final

Top Questions

Q1: What process/criteria did you use for making this selection?

A: We looked at all elements associated with establishing a second final assembly line for the 787, including the business environment, logistics, and infrastructure that exist at both company locations. We applied the same basic assumptions and ground rules to both sites, along with a heavy emphasis on long-term competitiveness and ensuring a sustainable stream of deliveries for our customers.

Q2: What ultimately drove the decision?

A: No one factor drove the decision. After taking all elements into consideration and carefully weighing them, it was clear to us that the most attractive business decision was to place growth capacity for the 787 at our Charleston facility. Establishing the second line there will expand our production capacity, diversify our final assembly capability (making us less vulnerable to disruptions from natural and man-made events), and ultimately boost our global competitiveness.

Q3: Was one site a higher cost than the other?

A: All things taken into account, this decision will provide economic advantages by improving our competitiveness and reducing vulnerability to delivery disruptions due to a host of factors, from natural disasters to homeland security issues and work stoppages. We're electing not to get into how individual sites fared in specific areas of the evaluation.

Q4: How were the criteria weighted?

A: Again, there were many criteria used and not one factor drove the decision. We did place a strong emphasis on competitiveness factors, including long-term economics, and delivery sustainment, which is our ability to continuously deliver high-quality products to our customers on time. After taking all elements into consideration and carefully weighing them, it was clear to us that the most attractive business decision was to place growth capacity for the 787 at our Charleston facility.

Q5: How did Chicago / your corporate office play in this?

A: We used the company's normal management process for making key business and investment decisions. That process involves senior leadership from across the enterprise. Our management team and the board of directors were in full agreement on the decision.

Q6: Who ultimately made the decision and when?

A: This was a unified management decision made with unanimous support of the board of directors. It was made late this afternoon [insert date when available].

BOEING LIMITED

Q7: Can you tell us about the Board's discussion on this subject?

A: Details of our Board's discussions are private. The board's support for the decision was unanimous.

Q8: We understand you were pushing the union for a no-strike agreement and came close to getting a 10-year deal. Obviously you didn't reach an agreement. Was that the factor that tipped the decision?

A: It was an important part of our discussion with the union, but it wasn't the only factor in our decision. In the final analysis, this came down to ensuring our long-term global competitiveness and diversifying the company to protect against the risk of production disruptions that can occur for a variety of reasons, from natural disasters, to homeland security threats, to work stoppages. While we didn't reach a long-term agreement, we felt our discussions with the IAM were productive and focused on the right things -- global competitiveness (including emerging competitors), and ways to sustain a reliable, on-time flow of deliveries to our customers. We look forward to moving forward with the IAM in a positive way to grow our business in an increasingly competitive market.

Q9: The union says you didn't give them a chance...that you weren't serious and / or cut off the discussions without getting their best final offer. True?

A: We were very direct in our discussions with the union about the key issues and the decision timeline that was needed to protect our ability to establish the second line and meet the delivery demands of our customers. We asked for their best and final proposal last Wednesday and they provided it. While it was not compelling in terms of providing reasonable assurances on production stability or sustainable economics, this ultimately came down to a larger, strategic decision for the long-term growth of the company.

A2: When pressed further on union comments they weren't done negotiating:

Again, we were exceptionally clear about when we needed the union's best and final proposal to include in our decision-making process. And we gave them a long timeline within which to work it. We were also very clear -- and had lengthy discussions about -- our expectations for ensuring production stability and competitive economics over the long term to ensure success against lower cost competitors who will enter the market in force over the next 20 years. Instead of responding to these vital business challenges with progressive ideas, the union -- to the very end of discussions -- continued to hold firm on positions that deplete competitiveness rather than improve it. Such as work guarantees, neutrality on union organizing, and economics significantly out of line with the market. Even the period of a potential no-strike agreement didn't meet the mark. Rolling these and the many other factors considered together, the right business decision for the long-term future of this company and its employees is to establish the 787 second line in Boeing Charleston.

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Q10: Your relationships with the unions have always been challenging; do you think your relationship with the unions is worse now, as a result of this decision?

A: We have relationships with a variety of unions at Boeing. We are hopeful that the discussions we have had the past few months will help establish a more collaborative dialog on mutual issues as we move forward. We're committed to working to improve our relationship with the IAM.

Q11: What does this mean for future plans and jobs in the Puget Sound?

A: Puget Sound will continue to be the headquarters of Boeing Commercial Airplanes and a global hub for aerospace talent and tens of thousands of good aerospace jobs. We will be building and delivering the world's leading passenger airplanes in this region for decades to come, and we look forward to working with regional interests to continuously improve its competitiveness.

Additional Site Considerations

Q12: Everett seemed to have the advantage from the beginning, wouldn't you say?

A: Everett is/was advantaged by its existing footprint, and the infrastructure it has in place, including all the logistical support. Also, Everett has a long history of building and delivering airplanes. However, we also have a significant footprint already established in S. Carolina, and locating a final assembly facility there will provide us with additional geographical diversity to our operations. South Carolina also demonstrated that it is committed to fully supporting our competitiveness objectives.

Q13: What kind of footprint will you need at either site?

A: In terms of assembly space, we're planning for an approximately 350-foot by 1,600-foot assembly bay. This will be similar to the 787 manufacturing footprint currently in Everett. Adjacent to that will be multiple locations for support personnel and support shops, along with a small flight line and delivery center.

Q14: How many jobs will be created in South Carolina from this decision? Will you need to add employees for the surge capability in Everett?

A: Over time, the growth we are locating at Boeing Charleston will create approximately 1,000 manufacturing and flight line positions. Management, engineering and other support positions located in the region will mean a total of up to several thousand jobs over a period of years. We will also need to add employees to manage the transitional surge capability in Everett. We are evaluating what those numbers will be right now.

Q15: What is the schedule for the construction of the facility? When will you deliver your first airplane from the site?

A: We could break ground as early as next month. Our goal is to have the site up and running in July of 2011. The first airplane will be delivered from the site in the first quarter of 2012.

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Q16: What production rate are you planning for North Charleston? Are you considering going above 10 per month? Would you use Everett or Charleston?

A: Our baseline plan is to ramp up to three airplanes per month at Charleston and seven per month in Everett. We have no plans to go above that rate at this time.

Q17: Will employees from the Puget Sound be able to re-locate to work on the line in South Carolina?

A. We will move certain skills to help get set up properly at the site and help accelerate the learning curve where possible.

Q18: Are you confident you will be able to mitigate risks involved in setting up a new assembly line (construction schedules, setting up new processes, having a trained workforce ready to support)? After all, GA didn't go so well.

A: Yes, our plan will outline ways to mitigate and retire risks as well as find opportunities. We recognize that every aspect of this project (as mentioned above) is critical to the success of a second final assembly line in Charleston. We have learned lessons throughout the 787 program that we will apply as we execute this plan. As noted in our release, as the North Charleston site comes on line, we will be adding some transitional surge capability in Everett to ensure the successful introduction of the 787-9 derivative and the overall ramp up to building 10 wide-body 787 jets a month. Once we achieve that rate across both sites, this temporary capability will be phased out. We believe this is a prudent step to protect our customers' interests during this critical stage of the program.

Q19: It doesn't seem like the best financial decision to have to set up additional surge capability in Everett AND set up another production line in Charleston. Why did Boeing choose this approach?

A: We will be producing up to 10 787s a month by late 2013. While some modest additional investment will be necessary for this temporary capability, it will reduce risk for the introduction of the 787-9 and our ramp up to our target production rate. We believe it's a prudent step to protect our interests and those of our customers. (There are no plans to keep to the transitional surge line in place for capacity above 10 airplanes per month.)

Q20: What does "transitional surge capability" mean?

A: The transitional surge capability is a temporary final assembly line that will be used for up to three-years in Everett. It is not considered a full production line because it will use temporary infrastructure, such as tooling, hydraulics and power. Having this capability will enable us to mitigate risks as we introduce the 787-9 and start up final assembly in Charleston.

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Q21: Where will you create this “surge capability?” Will you be moving the 767 line to make room?

A: Yes. We will relocate the 767 line. However, moving the 767 line is something we have anticipated in connection with our upcoming bid on the U.S. Air Force Tanker program, where we intend to transition the 767 to an ITAR-compliant production line, if we elect to bid that airplane for the program.

Q22: How much is all of this going to cost you? Now you are not only building a new facility in Charleston but also extra surge in Everett?

A: The surge capability in Everett will require a modest level of additional investment, which we think is a prudent step to protect the interests of our customers. We do not intend to share publicly our total planned investment in North Charleston, but those costs will be included in our financial guidance and financial reporting in future periods as they are incurred.

Q23: What are you going to do to make sure you have trained and skilled workforce ready to support this line?

A: It's a critical element of the plan. We have an effective training facility located next to the site and we will focus our efforts there. We have years of history on how to train people to make them capable and skilled to build and deliver commercial airplanes in support our customer commitments.

Q24: Your new leader Albaugh is very engaged with employees. How could he do this to the Everett workforce if he is so pro-employee?

A: In making any decision one has to put the customers and the company first and foremost in any decision. Doing so in the long haul is always the right thing to do for employees. It ensures the long-term competitiveness and the sustainability of the company. Continued business with our customers means continued jobs for our employees.

Q25: Does this mean that any new airplane you produce in the future will be made outside the Puget Sound area?

A: Absolutely not. We will evaluate those decisions at the time and make the best determination for our business, with competitiveness and the ability to ensure a continuous delivery stream to our customers being part of the decision mix.

Q26: You say that having a second line in Charleston reduces risk, but if the IAM goes on strike in the Puget Sound again they will halt your production lines. What does a second line in another state really do for you then?

A: Geographically diversifying final assembly on the 787 will protect a portion of deliveries against disruption from both natural and man-made events, including work stoppages due to labor disputes. Having the second line will also give us assurance and flexibility in how we introduce derivatives such as the 787-9.

BOEING LIMITED

Q27: Will you be moving any back shop or fabrication work to support the expanded Charleston facility? Will this result in lost jobs?

A: We will be establishing some emergent work capability in North Charleston to support smooth operation of the site. We see this as a prudent step to mitigate risks. This work represents growth related to increasing 787 production rates and will not result in job losses in Puget Sound.

Q28: Why won't you identify the sites considered beyond Everett and Charleston?

A: When we started the study we did look at a pretty broad list of potential sites. We narrowed the candidate sites to Everett and North Charleston as the finalists. The other sites were removed from the study, so we didn't feel it prudent to mention them.

Q29: Have you made job guarantees to South Carolina?

A: No. We have provided estimates about how many jobs potentially could be created over time by bringing 787 final assembly capability there.

Stakeholder Relationships

Q30: Was the Washington state delegation helpful during the course of the negotiations?

A: Absolutely. Members of the delegation helped facilitate the dialog and discussion, and we would not have gotten as far as we did without their support. They continue to work tirelessly on behalf of Boeing employees in Washington state.

Q31: Have you briefed Washington state leaders? How did it go?

A: Governor Gregoire and other key legislators have been briefed. You will need to contact them for their thoughts.

Q32: Do you think Washington state will continue to support legislation that favors Boeing and aerospace after this decision?

A: Boeing has a long history and substantial investment in Washington state. That investment and our massive presence there will continue. The state recognizes the need to improve the competitive environment for all businesses, not just aerospace. We will continue to partner actively with the state to improve our competitiveness in a global market. Additionally, Boeing has and will continue to abide by the PO agreement, which we view as an important step in the state's competitiveness journey.

Q33. How much did you receive in incentives from South Carolina?

A: The financial details for the expansion of our North Charleston facility have not been finalized. However, South Carolina made clear to us their commitment to provide a business environment where we would be able to succeed and continuously improve our competitiveness. We'll leave it to the state to discuss the details of its activities at the appropriate time.

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Q34: Do these incentives run afoul of WTO rules?

A: Again, the financial details for the expansion of our North Charleston facility have not been finalized. That said, we always look to make good business decisions within the boundaries of national and international obligations. This is no exception. Our planning for manufacturing and assembly sites always considers many variables, including impacts from tax, regulatory, employee training and other localized operating risks and opportunities. We will leave it to the state to discuss details once they are finalized.

Q35: Was this “competition” for a second 787 final assembly line merely a tactic to get state leaders to get more out of Washington state?

A: Absolutely not, and we’ve said as much several times over the past few months. This decision is all about our long-term competitiveness and ability to reliably supply our customers with the world’s best airplanes.

Q36: Are customers going to be okay having to go to a whole new location to take delivery of their airplanes?

A: We will have robust processes in place to assure our customers that we can effectively manage 787 airplane quality while operating two final assembly lines. We also will have the same, efficient processes set up in South Carolina for customers who are accustomed to overseeing the entire delivery process in person.

Q37: Setting up a second line like this requires oversight from the FAA. What are you doing to work with them?

A: Boeing South Carolina will remain in compliance with all regulatory requirements. Notification will be made to the FAA of all changes to the statement of work at Boeing Charleston as required by the FAA & 8120.2. Such changes could include the production statement of work, the plan for continued FAA representative functions, and making sure we have qualified employees. Additionally, the BCA Regulatory Administration will provide on-going oversight of the operations at Boeing South Carolina.

Q38: How have your employees reacted?

A: Employee notifications are being made today. Our employees care tremendously for this company and our customers and we believe they will benefit over the long-term from the growth that will come from the improved competitiveness and production stability resulting from diversifying final assembly on the 787.

Q39: Were the IAM and SPEEA briefed? What was their reaction?

A: Union leaders have been informed. I’d suggest you ask them for their reactions.

BOEING LIMITED

Q40: Aren't you going to S. Carolina just because it is a right-to-work state? Isn't that another reason why Boeing pushed so hard to have the employees at Boeing Charleston de-certify the union contract?

A: No. Employees alone made the decision to de-certify the IAM contract they had in place at the site. We are setting up a second 787 final assembly line at our North Charleston facility because it allows us to better meet the needs of our customers and be more competitive in a global marketplace.

Q41: How do you keep the Puget Sound employees engaged and productive when they see this as a slap in the face?

A: Meeting customer commitments is one of the many hallmarks of the team we have building our commercial airplanes. We are committed to communicating clearly and frequently to our team about what we're doing and why, and we'll be sharing our view with them that this decision will lead to improved competitiveness and long-term growth for our company.

EXHIBIT D

Originally published December 7, 2009 at 4:29 PM

Boeing to duplicate Puget Sound work for 787

Boeing plans to make all the parts for the 787 Dreamliner currently produced in the Puget Sound region at a second location so that the second final assembly line being set up in North Charleston, S.C., can operate independently.

By **Dominic Gates**

Seattle Times aerospace reporter

Local Boeing workers have long complained that only the vertical tail fin of the 787 Dreamliner is built in the Puget Sound region.

But now even that small claim to uniqueness is going to be shared, as Boeing continues to turn the screws on the Machinists union after their two-month strike in 2008.

The company said Monday it plans to use suppliers to replicate production of all 787 parts produced in its Puget Sound-area factories — in Auburn, Everett, Fredrickson — and in Portland, so that a second final-assembly line being established in North Charleston, S.C., can operate independently.



The plan includes setting up a second Boeing facility or finding a supplier to build the vertical tail fin, now made in a state-of-the-art composites-manufacturing center in Frederickson, near Tacoma.

But it appears likely the tail fin will be built by Boeing in Charleston in a building close to the second assembly line for which ground is being cleared.

Boeing spokesman Jim Proulx cited strikes in the Puget Sound region as a major factor in the decision. With a second supplier for every part, Boeing potentially could continue producing Dreamliners in South Carolina even if the Machinists went on strike here.

"Repeated labor disruptions have affected our performance in our customers' eyes," Proulx said. "We have to show our customers we can be a reliable supplier to them." The second production line "has to be able to go on regardless of what's happening over here," he added.

Tom Wroblewski, president of International Association of Machinists (IAM) District 751, said Boeing's move is "another poor decision is a long line of poor decisions on this 787 program."

"Which part of that airplane has come in on time or ahead of schedule and at or under cost?" Wroblewski asked rhetorically of the troubled jet program, about 2 ½ years late and billions of dollars over budget.

"It's the vertical fin," he answered. "That's the piece that's been designed and engineered and built by Boeing workers here in Puget Sound.

"Why does the company insist on spending hundreds of millions of dollars to build a new facility in South Carolina, to bring in tooling, and now to supply that production line, when they have got the capability right here?" Wroblewski said.

He said Boeing could avoid strikes without that expense by bargaining in good faith with the Machinists. Meanwhile, he said, union members are saving the program by working on fixing the problems, many of which originated with other suppliers.

Boeing expects to fly the 787 for the first time next week. "We prove our worth every single day around here," Wroblewski said. "This airplane is going to fly, and it's going to fly because of us."

But by the time Wroblewski sits down in 2012 for the next contract negotiations, Boeing aims to have an alternative 787 parts pipeline in place, ready to bypass the Machinists.

Ray Conner, vice president and general manager of supply-chain management and operations, sent a message Monday informing all Boeing Commercial Airplanes managers of the dual-sourcing decision.

"We will immediately begin identifying, selecting and contracting with suppliers to stand up fully operational coproduction by 2012," Conner's message said.

Proulx said Boeing has not determined how much work will be replicated within the company in the new Charleston facility and how much may go to outside suppliers.

When Boeing broke ground on its Charleston assembly line in November, the company disclosed extensive plans for other buildings at the facility. Among these is a "fin and rudder shop," which suggests the tail fin may be built at Boeing Charleston.

But Proulx said, "It's too soon to say what will go where."

He said the replication of parts sourcing also would "accommodate the ramp-up" required to shift to a planned rollout of 10 planes a month by the end of 2013.

The latest Boeing employment data collected by the state shows that, as of the end of 2007, a little more than 5,200 people worked at Auburn and almost 1,600 in Frederickson.

The interiors fabrication unit is only a small part of the Everett work force, which then numbered almost 28,000. Boeing said about 1,400 employees work in Portland.

Boeing also has fabrication facilities in Australia, Canada and Salt Lake City. The work done at those locations won't be duplicated.

The common denominator among Frederickson, Auburn, Portland and Everett is that all are covered by the IAM District 751 contract.

Frederickson produces the 787 vertical tail fin including composite and metal subcomponents. Portland produces torque tubes, side-of-body chords and engine mounts for the 787. A unit in Everett produces interiors for the 787 cabin. Auburn produces 787 heat shields and the tail cone muffler.

In addition, highly skilled specialist machinists in Auburn provide emergency or urgent manufacturing capabilities, with the ability to make any structural part for any airplane at short notice if any supplier fails to deliver on time.

IAM spokeswoman Connie Kelliher said that because of all the glitches in the supply chain, Auburn machinists are making many 787 parts and sending them to Boeing's final-assembly line in Everett and to supplier facilities.

"Auburn is one of the largest suppliers to the 787 right now," she said. "A lot of them are for the suppliers because they couldn't deliver their parts."

A machinist who asked not to be named because he is not authorized to speak to reporters said workers in Auburn are the top machinists in the company and typically take 10 years to learn the job and get the skill level needed there.

Conner's message said the union knew this was coming.

"We informed the (IAM) of our plans to begin dual sourcing during the company/union discussions preceding our decision to place the second 787 line in South Carolina," Conner's message to managers stated. "We remain committed to strengthening our working relationship with the union."

Ray Goforth, executive director of the white-collar union at Boeing, the Society for Professional Engineering Employees in Aerospace (SPEEA), said Boeing's decision to dual source shows the company "has learned the wrong lessons from the debacle of their 787 supply chain."

Much of the delay in the jet program is attributable to a paralyzed supply chain. Some suppliers Boeing signed up failed to deliver the needed parts on time or delivered them incomplete.

"This is Boeing trying the global supply-chain model again," Goforth said.

Boeing's Proulx said potential external suppliers are being assessed "based on capabilities, based on their ability to produce high-quality components and at the best value."

"We'll review supplier expertise, and we'll ensure that the right level of training and oversight is in place to make sure the performance standards are met," he said.

Conner's message to managers emphasized the decision means duplication, not replacement, of work done in this region.

"We are not moving any work that Boeing employees are currently performing — we are just adding additional sources," Conner said.

However, SPEEA's Goforth said that once the buildup of 787 orders is filled, he sees little business sense in Boeing duplicating work. He fears Charleston and outside suppliers eventually will get more work and this region will get less.

"Why would you keep duplication of industrial capacity?" he said. "It looks like they could be getting out of the business of manufacturing those parts here at some point."

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EXHIBIT E

Boeing moves to maintain S.C. 787 line in a strike

Puget Sound Business Journal - by Steve Wilhelm

Date: Tuesday, December 8, 2009, 1:22pm PST

Boeing plans to develop alternative sources for 787 jetliner parts that are outside of Machinists Union control in order to keep the planned second production line in Charleston, S.C., running during any future labor strikes.

The company plans to complete this by the time the current Machinists' contract expires in 2012, said a message distributed Monday by Ray Conner, vice president and general manager, Supply Chain Management & Operations, for Seattle-based Boeing Commercial Airplanes division.

"Dual-sourcing and co-production will allow us to maintain production stability and be a reliable supplier to our customers," he said in the memo.

The decision means that Chicago-based Boeing Co. (NYSE: BA) will have to find or develop new suppliers for the 787's vertical tail fin, which is made at Boeing's Frederickson facility in Pierce County, Wash., as well as for other parts of the aircraft made at Boeing's Auburn site in Washington.

Boeing spokesman Jim Proulx said it was "too early" to tell if the new production will be contracted out or done by Boeing itself at the new South Carolina site, or elsewhere in the country.

He said this is not indicative of a wholesale movement of existing production away from this region.

"There will be no jobs lost as part of this move. There are no plans to take this work away," he said.

Currently about 1,100 Machinists union members work at the Frederickson plant, and another 3,000 at Boeing's Auburn facility, said union spokeswoman Connie Kelliher.

In a statement, District 851 President Tom Wroblewski of the International Association of Machinists and Aerospace Workers criticized the Boeing decision as a poor use of resources.

"Boeing executives have decided to spend hundreds of millions of dollars on a new Charleston fin factory. But shiny new buildings don't produce airplanes," he said. "We think shareholders need to start asking the folks in Chicago why they're spending billions on this Carolina experiment, instead of the few hundred thousand dollars it would take to bring the Frederickson site back up to full production."

Kelliher added that the union calculates that it would have cost the company far less to have left union benefits as they were rather than trying to reduce them during the 2008 negotiations.

The issue was pivotal in causing the 57-day strike in 2008, which is often cited as the reason for the company's decision to build a second 787 line, and now to move other 787-related production out of this region.

"It's a simple solution for labor peace. No takeaways, no strike," she said.

EXHIBIT F

ALBAUGH INTERVIEWS

FILE NO. 1	
Dominic	But you know I feel impelled to ask some hard questions on behalf of basically the community of Washington as a result of last year's _____. Last year we had the decision to locate the second 787 line in Charleston. And then subsequently announced that all 787 work for the Puget Sound area would be duplicated elsewhere. So I think the local community is clearly worried about Boeing's future here. That's something that's followed on from you moved the headquarters in 01 and there have been repeated threats that future work might not be here. So last year seemed to really increase that feeling. So what is Boeing's commitment to Washington State?
Albaugh	Well this is the headquarters of the Boeing Commercial Aircraft. And it will be I think for probably forever. The issue last Fall was really about how we could ensure production stability and how we could ensure that we are competitive for the long haul. We had some very productive discussions with the Union and unfortunately we just didn't come to an agreement where we felt we could ensure production stability. And we read that as getting away from the frequent strikes that we're having. And also could we stop the rate of escalation of wages. And we just could not get to a place where we both felt was a win for both ourselves and the Union, so we made the decision to go to Charleston. Now its my hope, and I will tell you Dominic, my preference is to do the work here in the future. But we'll do work here if we can make sure that we have the stability of the production lines and that we can be competitive over the long haul. And those are the two things that I think I have to ensure our customers and I have to ensure also the stockholders of the Boeing Company.
Dominic	So looking now into the future, now that you have decided on having this other plant in Charleston, how do you see the geographic shift of Boeing and the balance there between those two bicoastal plants.
Albaugh	Well, I guess I don't really see it as a balance. Clearly the center of gravity is here in Puget Sound and will continue to be here in Puget Sound. And I'm very hopeful, as we continue to have discussions with the Union, that we'll be able to come up with ways of being competitive here, and we can come up with ways of ensuring that we're not gonna have labor strikes. And if we can get through those two hurdles, we're gonna be doing work here for a long long time. And there are no discussions of moving any work that's currently here out of Puget Sound.

Dominic	Right, but of course its future work that people are worried about. What are the chances that the next new jet after the 787 will be built here?
Albaugh	Yeah, I'll tell you, the commitment that I can give you is that the first preference is to put the work here. But we have to ensure ourselves that we're gonna have a stable production line and we have to ensure that we can be competitive over the long haul. If we don't, we're not gonna be selling any airplanes. And I think that's the worse outcome for Puget Sound and that's the worse outcome for the company.
Dominic	Well, so when the time comes to announce the launch of a new airplane program, which could come in a few years, you would say launch a new airplane program and that's the plan for it. Are we going – are the people of this State once again going to face a competition with all the states in the U.S.?
Albaugh	I guess I don't really view it as a competition.
Dominic	But it was last time.
Albaugh	I don't think it was. It was not a competition. What it was was, again, we've had strikes three out of the last four times we've had a labor negotiation with the IAM. And I'm not blaming that on the IAM. I mean that is an issue between management, created by management, and created by labor. You know, we need to improve the relationship that we have. And we've got to get to a position where we can ensure our customers that every three years they're not gonna have a protracted shutdown. You know, we have customers right now that are telling us that in contracts they don't want to write in excusable delays for strikes. That's not a situation that's good for us. That's not a good situation for them. It's not a good situation for labor. And if one projects out another 15 years, we're not just gonna be competing against the Europeans. We'll be competing against the Europeans and the Brazilians, the Canadians, and the Chinese, and the Russians. And we have an obligation to make sure that as we compete against not just one but compete against four, we have got a cost structure and productivity capability that will allow us to continue to compete.
Dominic	In saying that it wasn't a competition, clearly you're referring to the Charleston decision last year. But I was referring to the '03 competition when Boeing actually had a formal competition to find out where they were gonna build the 787.
Albaugh	Well I wasn't involved in that one and....
Dominic	So the question is will there be another competition like that when you build the next ...

Albaugh	I don't think I would – if I'm involved, I'm not gonna have a competition like that, I can tell you that. But what we are gonna do is study very hard, with the first option being here, to make sure that we do the right thing for the customer, which means not have labor stoppages and do the right thing for the customer to give them the kind of value that they want in the airplanes.
Dominic	Just to dwell on the Charleston expansion for a moment, it does seem to me that the complexity and expense and risk attached to doing all that there is something that's hard to justify. Does it really make business sense?
Albaugh	There's no question that whenever you go to a greenfield site there is risk involved. At the same time, with the protracted labor stoppage that we had back last I guess the Fall of 2008 – I mean that cost the company billions of dollars. And I think if you compare what it cost because of the stoppages versus the cost and the risk of starting a new line in Charleston, I think the investment certainly is the right one for us to make.
Female	[illegible—too far away from microphone]
Albaugh	Yeah. Absolutely. Again, my first preference when I started looking at this last Fall was to stay here, and we just could not get over those two hurdles. How do we ensure stability of manufacturing and how could we ensure that labor costs weren't gonna continue to escalate.
Dominic	Do you think a chance was missed to – I mean you have a labor problem, that was clear. You just had that strike. You have a big relationship with the Union problem. Potentially you could have fixed that and got your production here and not have the expensive at Charleston. Was it a chance missed?
Albaugh	We tried. We did not get there. And you can blame both sides for that. And over the next couple of years we're gonna do everything we can to work with the Union to make sure that we don't have another stoppage and that we have a path to competitiveness over the long haul, and that we get the kind of relationship with the Union where we don't have to worry about labor stoppages in the future. You know, this is a great work force here. They are magicians. They do things that I don't think any labor force in the world can do. And I feel my job is to make sure they have jobs five years from now, ten years from now, twenty years from now. But we're not – none of us are gonna have jobs if we continue to have strikes that go on for three or four months, every three years.
Dominic	So, to sum up the Charleston decision, let's be clear. The Charleston decision – it wasn't about Washington's business plan, right?
Albaugh	It was not.

Dominic	It was not about trying to get lower labor costs going where work is cheap. It was about the strikes.
Albaugh	It was about ensuring to our customers that when we commit to deliver airplanes on certain dates, that we actually do deliver. And we have lost – our customers have lost confidence in our ability to do that because of the strikes. The other thing is the rate of escalation for the wages. They continue to go up in dramatic fashion. You know, how can we flatten that out. Those are the two things that we are after.
Dominic	Well, lets just move on to talk about the Union in a little bit more detail. You know when you came here, I think it was last July, for the rollout of the Poseidon at the subplant in Renton, you talked about – you praised that the men and women at Puget Sound have made this possible.
Albaugh	Yeah. They're fabulous.
Dominic	And you just repeated that here. And yet, that was in July, and then in the Fall. It seemed like a slap in the face to the people here to say that we're gonna build it somewhere – we're gonna take the 787 work somewhere else.
Albaugh	Yeah, you see, I guess I don't see it as a slap in the face Dominic. I think that if we don't have a company nobody has jobs. And if we can't meet the promises we make to our customers relative to delivery of aircraft, we're not gonna be in the business. If we continue to have costs that go up faster than the competition, we're not gonna be selling any airplanes. This is about making our company competitive over the long haul. By going to Charleston, I believe that we're gonna help reduced costs here. Now you say how is that possible? Well the average cost of an airplane built here and the average cost of an airplane built in Charleston goes into a program accounting. The average unit price of an airplane should go down as a result of our being in Charleston. That will create more demand for airplanes built here and in Charleston.
Dominic	But how big a component of that average cost of an airplane is actually labor. It's not a big chunk of it, is it?
Albaugh	Its not a big chunk. Its – again I'm not gonna give you the exact percentage. It's a significant percentage. Its less than half certainly. But again, I think the other bigger part of it is when we commit to delivering an airplane, people put together their business plans based on assuming they're gonna get delivery on certain dates. And when they don't get delivery it impacts their ability to meet their business plan to make money and to buy more airplanes in the long haul. And they will think twice the next time they decide to buy an airplane from us or from Airbus or 10 years from now from the Canadians or the Chinese, or the Brazilians. This is gonna be a very competitive world we're in, much more competitive than its been to date. We've enjoyed a duopoly here. And all the rules are gonna change. And you know when you're in a duopoly, as we are

	and you're in second place, you're last place. I don't want to be in last place. I want to be in first place.
Dominic	So given what happened with the Union last year, the failure to reach agreement resulting in that decision....
Albaugh	And blame that on both of us; the fact we didn't get there.
Dominic	Well, just forgetting about blame, I'm wondering – well let me ask, first of all, what is your attitude to Unions?
Albaugh	I've always gotten along great with Unions. I've worked with them. I've walked the concrete with them. I've listened to them. I've watched them do amazing things relative to productivity. I've seen them work miracles out there in the production line. You see that every day down in Renton. You see that every day up at Everett on the Triple 7 where they're making huge strides relative to productivity.
Dominic	Well, that's the work force, but the Union itself. Boeing has often portrayed the Union as an obstacle between itself and its work force.
Albaugh	You know where there is an issue with the Union that's a reflection on management. We create the environment. We create the culture. And my hope is that we can have good relationships at the top, all the way down to the people on the factory floor. I was in a meeting last week in Washington, D.C. with some of the leadership with the IAM, and we had many things that we agree on. And I think as we go forward I hope there are more things we agree on because neither one of us are gonna be in very good shape unless we're selling airplanes.
Dominic	Was Mr. Buffenbarger there?
Albaugh	Mr. Buffenbarger was not.
Dominic	Well, but given what happened last year, you're now the new guy in position, and you've got the poison that entered the relationship as a result of failed talks. How do you fix it now?
Albaugh	I think you fix it by communicating. And I think that the IAM understands that we're entering a global economy, global competition. Its gonna be more than just ourselves and the Europeans. And our ability to be productive, you know our ability to keep the promises that we make to our customers, those are the things that are gonna dictate whether or not we have a company and whether or not we're selling airplanes in years to come. And I think that once we agree on where we need to go together, we can figure out a way to get there.

Dominic	Well, obviously you'd like a better relationship with IAM and you would hope to achieve it. But does the cost of labor here mean that Boeing is always gonna favor some non-Union alternative because it is gonna be cheaper?
Albaugh	You know you look at the installed base that we have here. You look at all the tooling that we've invested here. You look at all the training and the skilled work force that we have here. You look at the ability of this team to take cost out of an airplane. Those count for a lot. Those count for just as much, if not more, than just the wages. But again, the wages have gone up dramatically and we need to have the knee of that curve inched over a little bit. We can't continue to go on with the dramatic fashion we have in the past.
Dominic	I'd also like to point to a certain END OF FILE 1
FILE NO. 2	
Dominic	_____ and you've got heavy congressional support on that.
Albaugh	We do.
Dominic	And that support in congress is based on the need to protect good American jobs. And when they talk about good American jobs and well paying American jobs, they're contrasting it to non-Union jobs in Alabama. And the Union delivered that congressional support largely – well not just the Union, but a big element. Those democratic politicians who are Union supported. That's a big element. And so the Union has delivered that for you. What do you give to the Union?
Albaugh	We got 60,000, now we got 75,000 jobs here in Puget Sound. And we're gonna have tens of thousands of jobs for years to come. But we're talking about Charleston where we may have 3, or 4, or 5,000 people. You know, clearly the Union recognizes that, certainly the politicians in the State of Washington, the elected officials, understand that this is the center of gravity. And that's not gonna change. The 767 airplane in its entirety is gonna be built here by the workers that have built this airplane in the past. Nothing is gonna change in that regard. And the last time I checked, in Charleston those were U.S. Citizens down there.
Dominic	But again non-Union and much lower paid jobs.
Albaugh	Those are well paying jobs down there.
Dominic	By the way, do you have any concerns as you look at the future? Well you've already, you've agreed with me that the business climate here wasn't a particular factor in that decision last year. Of course all the states in the Union in the current downturn are in terrible financial trouble, budgetary trouble,

	South Carolina as well as Washington. Do you have any concerns about changes ahead that might affect your future here in this state in terms of
Albaugh	Well I think you can probably say that about all the states in the country right now with the economy being what it is. But again, the overriding factor was not the business climate and it was not the wages we're paying people today. It was that we can't afford to have a work stoppage every three years. We can't afford to continue the rate of escalation of wages as we have in the past. You know, those are the overriding factors. And my bias was to stay here but we could not get those two issues done despite the best efforts of the Union and the best efforts of the company.
Dominic	You're on the company's executive council, so there is certainly a perception that chief executive McNerney(?) drove that Charleston decision and that some people here were not too happy about it. Were you a part of that decision?
Albaugh	Well, I was the one that made the presentation to the board of directors. And I went into this thing feeling that if we could get it done here, we could save the company a lot of money. And there were two things that I needed, as I mentioned. And we couldn't get those two things done. And not getting those two things done, I made the recommendation that I thought was the right one. And that was to go to Charleston.
Dominic	So, before we leave that subject entirely, there's one last thing.
Albaugh	Somehow I knew you were gonna talk about this Dominic.
Dominic	So there are -- they've been talking for many years -- Boeing is out of here, Boeing is leaving, Boeing doesn't like us anymore. Can we, as a just final question on that topic....
Albaugh	You can put that one to bed. I mean we've got a terrific work force here. We've got engineers who have more depth and breadth of knowledge about building airplanes more than anyplace that I've ever been. We've got a talented work force. You know, this is where our people want to live. This is where we want to be. We've had a great partnership with the State of Washington. I hope its one that continues for a long long time to come. Again, I preface it by -- or caveat it by saying that it is gonna be a much more competitive environment out there in the future. And work <i>anyplace</i> is not an entitlement.
Dominic	Sounds like if you can fix things with the machinists then the outlook for here looks an awful lot rosier.
Albaugh	I sure hope it does. That's -- I'm gonna be here a few years, and I would like nothing better than to get a great contract with the Union and put to bed the concern our customers have about our ability to deliver on the promises we

	make.
Dominic	You mentioned the engineers here. I want to talk about that. One of the things you did when you came here in October, you established an advisory group. The old-time Boeing people. People like John _____, Joe Sutter, _____. People associated with the old style of Boeing. And then in January Boeing elevated nine engineering leaders to the move that was spun as harking back to the early days when aerospace companies were driven by engineering culture. So I want to ask you, you are an engineer? You started as an engineer. Is that a specific goal to reinstate the primacy of engineering with in BCA?
Albaugh	I think decisions need to be driven more by engineering and less by the, what I'll call the business decision-makers. I think on the 787 program we made some decisions that took on much more risk than we should have taken on. Some of these outsourcing decisions were – we did not consider the extent – the risk that we'd take on by going outside. And I think that we are and we will make sure that the engineers and the voice of the engineers is much more involved in the decision-making as we go forward. Bringing the senior advisory group in – a lot of people left this company during the merger, right after the merger. And a lot of people left I think right after 2000, 2001 because they didn't see us developing any new programs. And we lost a lot of the heritage of this company. And going into the 787 program, we didn't have a large group of people that had ever been through a development program before. The great thing about the 747, the 787 is we're training a whole new generation of engineers and program managers on how to do development programs by bringing back Sutter and Roundhill and Quimalivin(?) and those icons in the Boeing company. We're getting the benefit of hundreds of years of knowledge and experience and they are people that I listen to, they're people that I want to get my team in front of so they can get the benefit of their history and the benefit of the things that they've done right and the things that they have done wrong over the years. You know, the whole issue of the iconic engineers. You know I started that with John Tracey in the old IDS organization. When I grew up, the sheriff in town was the chief engineer. You didn't do anything without getting the chief engineer on board. And if you didn't get him on board and you were wrong, it was not a good situation. And I pushed John very hard that we needed to elevate the iconic engineers in this company. They needed to get more recognition. They needed to be more involved. And with some of the changes that we made by promoting the eight or nine vice presidents into engineer, I think, into engineering does that.
Dominic	Another aspect of the relationship with your engineers is your relationship with another union which is SPEEA. And it does seem to me that that relationship has been adversarial for awhile. If you want to elevate engineers, why so adversarial with SPEEA.

Albaugh	Yeah well, I don't have all the history. You probably know more about it than I do Dominic. This place doesn't run without engineers and it doesn't run without machinists. And I think that what we need to do with our engineering organization is be real clear about what part of engineering do we want to do here. And I think what happened with the 787 was we outsourced things without explaining to the engineering community why. And one of the things that I sat down with our new chief of engineering, you know Mike Delaney, is we need a strategy – what are those things, what is that IP that we're gonna do here. What are those tasks that only the Boeing company understands the things that we need to hold close. The flight controls – never outsource that. The wings -- never outsource that. The fuselage, the composites – don't outsource those. We need to define very clearly things that we should do and have to do and those things that anybody can do. And those things that we need to do to hold on to our IP, we need to build the walls around those very high. And I think we need to go and communicate to the Union of SPEEA and the Union, IAM Union. What are those things that we want to hold close and hold dear. We outsourced too much.
Dominic	Yeah, well, I definitely want to talk about that. You just said you never outsource the wings. Isn't it too late, you've already outsourced the wings to Japan.
Albaugh	Well we have. We'll build other airplanes.
Dominic	So Mitsubishi is not gonna be building
Albaugh	I didn't say that. I didn't say that. Those are examples. Those are examples.
Dominic	Well actually you and Mr. McNerney have talked repeatedly in various venues about this issue and what you said is you're gonna draw the lines differently. That's the phrase that you use. And I'm wondering if you could just elaborate a little bit on what that means. In particular, for example, I understand it's already happening in the 787-9, the second version of the 787 – that you are outsourcing less of it than you did on the dash 8. But how exactly, I mean the wings are still being made in Japan, fuselage in Italy.
Albaugh	We lost control of the design. We lost control of the interface. We didn't provide enough oversight to the subcontractors that were doing the various elements of engineering and manufacturing. On the dash 9 we pulled some of that engineering back. As you know, we took over the Vought facility. We took over the Global Aeronautical Facility. So we now have control of some of the fuselage of the airplane. So we have pulled some back for both the Dash 8 and the Dash 9. Those lines that we're gonna have to redraw, we're in the process of redrawing those right now. If you look at a product strategy, the manufacturing strategy, an outsourcing strategy, an engineering strategy, all those are very interrelated, and we're in the process of defining those strategies

	right now.
Dominic	One thing that you did on the 87 was you not only had Mitsubishi build the wings in Japan, but you had them do the detailed design of the interior of the wing. And is that continuing on the Dash 9?
Albaugh	I believe it is. Its not the same wing, the new wing. It's the same length, but it's a stiffer wing and its got – it carries more loads. So it's a different wing. I think that they're still doing the wing design on the Dash 9. We can check that for you.
Dominic	But, you know, given what happened with the 87, then I think I read what you just said as an admission that it didn't work very well and that you did make mistakes in outsourcing the work.
Albaugh	We learned a lot.
Dominic	And you paid for it. You've had two years delay. So isn't that an argument for some surprise that despite that Boeing is nevertheless insisting that the 787 supply-chain model is the one for the future. You draw the line slightly differently, but you'll stick to that model. Why, when it didn't work so well? Or how do you change it to make it work?
Albaugh	Its really easy in hindsight to second guess decisions that were made. And I think they made a lot of good decisions on the 787. One that they got the airplane right. I mean this is gonna be an airplane that's very efficient. This is gonna be an airplane that I know people are gonna want to buy. And this is gonna be an airplane that changes the way people travel and changes the way that airplanes are built. But, I think we outsourced elements of the airplane to people that didn't have a lot of experience at it. We didn't provide them the kind of oversight and support that was necessary. And we lost control of some of the interfaces. So what do we have to do differently or better going forward. Well, again, we're gonna redraw those lines and we have to treat any subcontractor in the future as an external factor, as an external design team. We need to look at them as more than just a company that we throw a specification over the wall to. We need to be much more – but I think that if you talk to me, if you talk to Jim McNerney, we'll both say that we moved up the value chain too far and we took on too much risk.
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	FILE NO. 3
Dominic	Well, I think that strategy is in part connected with what had been a mantra at Boeing for some years including at IDS where you were meeting which was that Boeing was shifting towards large scale systems integration.

Albaugh	Well, actually it's a little different at IDS you see. We, yeah, complex large scale systems integration is what this company does. At IDS, this whole idea of best of industry and being integrator was not an act of inspiration, it was an act of desperation, you know, we didn't have any verticals. We weren't vertically integrated to begin with. And that was a strategy that we put together because we had no other at our disposal other than to go out and buy a bunch of companies to get vertically integrated. I think the difference over here, is they started off being reasonably vertically integrated and moved up the value chain. And I think in hind sight, we probably moved up a little too far.
Dominic	Well, some people definitely saw that, if we confine ourselves to speaking about BCA, saw this strategy as a move away from the actual building of the airplane towards a more architectural, conceptual approach early in the stages, doing the market analysis deciding the _____ and architecting it. And, of course, final assembling it. But final assembly was relegated to a snap-together airplane, in theory, at least it hasn't worked out quite like that. But the actual building of the airplanes here in Puget Sound factories was something that was less important. It was work that seemed to be designated lower level work that other could do. Is that the way it goes in future or is that...
Albaugh	See, I would not subscribe to that, you know, my view is there's certain things that you have to keep within your company, you know, those pieces of intellectual property that nobody else in the world understands or knows how to do. And those are things both from a manufacturing and design standpoint that you need to keep in sight. And then there are other things, seats, galleys, some of the, much of the machining, you know, anybody can do those things. But why do people come to you? They come to you because you understand things better than anybody in the world understands about airplanes. And we need to define what those things are, and we need to hold those things very close. You know, the other issue that I feel pretty strongly about is if all you're doing is systems integration, I mean, how do you train the engineers of the future to be systems integrators. I mean, I think engineers need to come in and design something. They need to design a part. They need to see how a part goes into a subsystem, how a subsystem goes into a system and how systems of systems interact. You have to have some degree of basic design so you can train the systems integrators of the future.
Dominic	I have too much of that so that the engineers here didn't have enough to, so the things you want to protect include the wings?
Albaugh	I think we understand how to build wings as well anybody in the world, and I think we're demonstrating that. In our 737 program we're, you know what? I guess building 62 wings a month. That's pretty good production.

<p>Dominic</p>	<p>Alright. Good. Well, the question about your own taking over at BCA, it seems to me looking on from the outside, that you have approached your job, your new job, eager to shake things up. After some months of review, you have a major management shuffle of putting different people in different place. You organized your management retreat and got everyone on the same page. So I'm just wondering, it does seem that you are, in some sense, about change. And what needed changing and what's ahead?</p>
<p>Albaugh</p>	<p>Well, I guess first of all, I didn't see that management shake up that we had as being that dramatic, you know, what did we do? We formed an organization called Program Management to ensure that we bring the program management and execution discipline necessary to all the programs. And we put them under Howard Chambers, somebody that's been doing development programs for 40 years. I also had a view that we were focused a lot on 787 and 747 and appropriately so. But at the same time, I had a view that we had to be thinking, you know, longer term. What do we need to do on the single aisle airplanes? What do we need to do in terms of upgrading the Triple 7 or a brand new Triple 7 size airplanes? And that's I asked Mike Bair to go focus on the new single aisle airplane or an upgraded 737, and you say, why Mike? Well, you know, Mike got the configuration of 787 correct. And he's very good at that. And he's very analytical in his thinking, and I know that the decision we make on the 37 will be the right one. And then we took Lars Anderson and talked him into coming out of retirement and asked Lars to focus on Triple 7 next generation or a new 300-400 seat airplane. And Lars was good enough to come out of retirement to do that. So I would say this reorganization was really about finding the future, but also bringing more discipline to how we execute existing programs. Most of the key players and the program managers, they didn't change. We had a couple of people retire, so we moved some people around. But I would not call that a major change in the organization other than to focus on the future and the program management discipline. You know on the offsite, I'm not a new guy on the block, and I felt the whole team, all the executives needed to understand what I felt was important. And what I tried to achieve for that meeting was to get alignment of the entire staff on and where we needed to go, what the challenges were, what the issues were, and what we all needed to do together. And there are really only four things. I try to keep things pretty simple for the team. What we have to do is, we've got to continue to add value to our customers, that's why they keep coming back. We need to find the future for the Boeing Company. We need to develop the leadership team of the future, and we need to meet the plan. And those are the four things that we talked about.</p>
<p>Dominic</p>	<p>The appointment of Howard Chambers to oversee program management, that's specifically, I think, just to manage projects. It does seem that the perception is Boeing has failed in that here or over a couple of years. You see, I haven't kept control of the program.</p>

Albaugh	Yeah, it's interesting. I think that BCA is extraordinary in their ability to manage programs. And I don't think anybody manages a supply chain as well as they do. Just the fact that we're doing 31½ 737s a month, and we set a record last year with 88 Triple 7s being delivered, do a great job of program management on production programs. I think the issue was on the development programs, the fact that we hadn't done a major development program in a long, long time. The fact that a lot of the people that had, had retired. And some of the decisions we made on the program were business-driven as opposed to being driven by the engineering community. And we just took on too much risk.
Female	_____ program management and ideas. The program management is really an essential function and discipline.
Albaugh	Yeah, at IDS we had 300 programs, and the vast majority of programs are development programs, you know, an ABL program, that's all it is, is a development program. I mean, the space station was a development program and went on for 10 years. The Ground-Based Midcourse Missile Defense program was a test bed. It became a development program and finally we're installing it. But how you do program management and development programs is something that Howard understands very well, and I think I understand pretty well. And we're trying to bring many of those disciplines to the BCA side. At the same time, we're trying to bring a lot of the talents that BCA has, relative to supply chain management, you know, over to the IDS side. So, I mean, there's great synergy within in this company. And, you know, one of the things I hope to achieve being over here is to encourage even more of that.
Dominic	You talked about potential competitors in the future. I'd like move on and talk about China. I believe you're making a second trip to China or have you just made it?
Albaugh	I think I'm going the last week of this month, yeah.
Dominic	And that's your second trip, right?
Albaugh	Yeah.
Dominic	So, I find it interesting, Boeing like the United States itself, has an ambivalent view of China's enormous growth. It's off of the trade as a potential massive market which also portrayed as a potential threat. And when you were head of the defense side of Boeing, perhaps you had to view China one way. Now you're head of BCA, you're making trips to China to sell airplanes. So recently the U.S. sold arms to Taiwan, which resulted in the threat from China to boycott any companies involved including, Boeing had a small part in that, the missiles. Then the last week there was a Wall Street Journal piece saying that we should build more F-22s which of course, Boeing knows a big part of

	<p>here in Seattle because of the potential threat from China one day. So the question is, how do you, in the position you're in now, how do you handle this complex relationship between the U.S. and China, and between Boeing and China?</p>
Albaugh	<p>Well, you know, I'll tell you there's not a lot that the Boeing Company can do about the relationship between China and the United States. I mean, the decision to sell arms was country-to-country. It was not a decision with the Boeing Company in any way got involved in. I think the only thing that I can do is try to be the best customer to the Chinese airlines and the best partner to some of the joint ventures that we have in China that we can be. I don't worry a lot about things I can't control. What I can control is the relationship that we have with the airlines in China. And we're going to work very hard on those. You know, China is going to have a GDP as big as ours within the next 20 years. It's an economy that's going to need airplanes. They're developing 34 new airports right now, large airports. We're developing one here in the United States. They're going to be buying about 200 airplanes a year for the next 20 years. It's a big market for us. They're going to building their own airplanes. And I have full confidence that they'll build a very good airplane, maybe not the first time, but eventually they'll get it right. And I spent a lot of time in space business, so I know that going to outer space is a difficult thing. You've go to from zero to 22,000 feet in 8½ minutes with 2,000 feet per second in 8½ minutes. They did it a lot faster than anybody thought they could. They have made a national commitment to building commercial airplanes. They're going to invest billions of dollars in developing that capability. They have, you know, many, many times as many engineers coming out of their colleges as we do. And they're going to develop a good airplane over time, so, you know, we have to figure out and working very hard on what kind of relationship do we want to have with industry over there. And what kind of relationship do we want to have with the airlines in China.</p>
Dominic	<p>So how much of a threat is the C919 narrow body jetliner that they're developing that's supposed to be, I think, 180 seats, approximately. Suppose to enter service a 2016. How big a threat is that to Boeing?</p>
Albaugh	<p>Well, they're going to put some of the new engines on them. And, you know, they're more efficient engines. And assuming they get the airplane right and it probably won't be perfect the first time through. They could have an airplane that competes with a 737, yes.</p>
Dominic	<p>And what do you do about that?</p>
Albaugh	<p>Well, we need to do several things about it, one, the Boeing Company gets a premium for the airplanes that they sell. And we get a premium on the airplanes that we sell because we create value for our customer and that's one of the assignments that Mike Bair has, you know, what does the next generation 737 or the next generation single aisle airplane look like? Is it a re-</p>

	engined 37, next generation, or is a brand new airplane? And we're actively looking at both of those options right now. And we're looking at having a capability, you know, towards the end of this decade. And it's not just the Chinese; it's also the Canadians with the C Series. It's also, you know, Bombardier, it's also Embraer who will have an airplane and potentially the Russians as well.
Dominic	So where do you stand on this as part of the national debate, I think people would be interested to know what the Chief Executive of Boeing thinks in terms of this threat or market which is China to the U.S. Is it a military threat or is it a vast market we need to tackle?
Albaugh	Hey, you're not going to get the head of commercial airplanes talking about China's military threat, you know, Dominic. Again, I'll leave that to the people of the Pentagon, and I'll leave that to the policy makers in Washington, D.C. You know, you think about China and the United States, our economies are dependent on each other, now, and will be for the long haul. You looked at how far this relationship has come over the last, I guess it's 35 years since Nixon first went over there, and I think everyday we get closer and closer together. Our economies get more tightly entwined. It's not to say that we don't have the periodic bump in the road, and yes, we're having one of those right now. But I think there's a lot to be lost on both sides if we don't have a good relationship with China. And I think that China has a lot to lose if they don't have a good relationship with the United States.
	END OF FILE 3
FILE NO. 4	
Dominic	You know, Boeing's first engineer was Chinese born Wong Tsoo. And it's been noted before that for a global company, Boeing's executive ranks don't, have a surprising lack of diversity. I look, for example, at your Indian operations, and I see the success Dinesh Keskar has had there, Indian born executive and president of BCA in India. But I don't see that in China, there's very few Chinese American executives which is a little surprising given that we're in Seattle, we're on the Pacific rim, we've got a great Asian American community here. And think of the cultural impact of Gary Locke, the Governor of Washington, going to China and trying to help sell Boeing airplanes. How come you don't have more such faces?
Albaugh	Stay tuned. You'll be the first person we call, okay? And it won't be long and we'll give you a call.
Dominic	Okay, thanks. We're running out of time, so a few important topics to cover, one of them is tanker. You and other Boeing execs have talked about the unique Boeing advantage of building both commercial platforms and the military systems and how you leverage that. You did it for the Poseidon

	_____ that's built and rented. So you installed all the military's hardware in line on private assembly. Is that what's gonna happen on tanker if you win it? Will you do that in Everett?
Albaugh	We will do as much as we can in Everett. We'll make all the structural modifications that we can. We'll install some of the mission-specific equipment that we need to make it a tanker. But the hoses and the drogues and the bladders, some of those things will be stalled, installed in Wichita. But as much as we can install upfront in line, you know, that will drive the cost of doing business down. And that's what we plan on doing.
Dominic	Well, the tanker RFP that just came out on, in the estimation of outside observers puts you in the favored position to...
Albaugh	You know I'm very intrigued by that. You know, it's very hard to write an RFP for dissimilar airplanes. You know, I think the U.S. Air Force did a pretty good job of doing that. I mean, there are things in that RFP that we don't like, and, you know, I understand from what I read in the paper there are things that Northrop doesn't like, but it's not a perfect RFP for either one of us and there are puts and takes for both. You know, I read that thing and, you know, I don't read it as a lay down hand for the Boeing Company. And I'm assuming that Northrop Grumman is gonna bid.
Dominic	Well, is there any sense of an embarrassment at the company that should you win it this time you've done it by a political backlash that caused them to rerun the competition?
Albaugh	I guess I don't understand. I don't think that there's political backlash that caused this thing to be re-competed. I think the GAO took a look at the decision-making process and felt that there were errors in how they came to the decision they came to. I mean, let's review the, let's review the tape here. We had 98 strengths, they had 30. We had one weakness, they had five. There was no credit to be given for fuel offload above a certain threshold level; they were given that. The GAO looked at the decision-making process and it was flawed. That's why they're doing the, the re-competed has nothing to do with politics.
Dominic	But the Congressional support that you have, you, way back as early as the early 2000s were...
Albaugh	You know, I appreciate Congressional support, but I don't think there's been a competition that I've been involved in in my career that has been decided by people on Capitol Hill. They get, it gets decided by the procurement people in the Pentagon based on their RFP and where they don't make their decision based on the RFP, new companies have the opportunity to protest, which we did and which we do very infrequently and they found in our favor.

Dominic	One political issue that's come into the whole tanker debate is WTO and I'd like to go to that now.
Albaugh	Yeah.
Dominic	The WTO found Airbus guilty of taking illegal subsidies and an outcome in the European countersuit is expected this summer, which could find similarly liable, maybe, maybe not. But what I want to ask you is this; Embraer and Bombardier went through this whole thing suing each other at the WTO for illegal government launch subsidies, they were both found guilty and it didn't change a thing. Nothing happened and, you know, Bombardier's making the C Series now and they're getting government money to help do it. So what's the point? What, why, where can these WTO suits go?
Albaugh	Well, you know, first of all, you got to remember, Dominic, that we didn't bring the WTO suit. The administration of the United States of America brought that suit.
Dominic	They wouldn't have done so if you didn't want it.
Albaugh	They brought the suit because in their view the United States and its industries have been damaged by illegal subsidies who were in violation of the WTO rules and that's why the lawsuit was brought and clearly the administration feels that those subsidies were illegal and the WTO feels the same way, at least that's their, the preliminary judgment that they've laid down.
Dominic	Well, certainly some people see it as politics...
Albaugh	Well...
Dominic	...to block, in part it helps to try and block the tanker.
Albaugh	So, you know, we're building the 787 the old-fashioned way; we're using our own money. On the 7, on the 8330, you know, based on the WTO case, you know, they had launch subsidies of close to \$6 billion. You know, that's a significant advantage for them that we don't enjoy. You know, we have to cover our own costs. And, you know, we would've liked to have seen something in the RFP that accommodated the launch subsidies that they got. It's not there and we're competing, we're not crying foul, we're gonna do the best we can with the proposal.
Dominic	Do you have any expectation about the outcome of the countersuit, which is ending this summer where Boeing was accused of illegal subsidies?
Albaugh	Based on everything I know, I feel pretty good about the outcome. Of course, then again, Dominic, I thought we were gonna win the tanker contest last time. As I've told people, there's only one more, one person more surprised that we

	lost the tanker than me and that was Ron Sugar, that they won.
Dominic	You mentioned earlier in this conversation that being number two in a duopoly put you in last place and you don't want to be in last place. So since we're discussing this rivalry with Airbus, where do you see that, how do you see that playing out in the next few years?
Albaugh	When we start delivering the 787s in quantity and that's gonna start in 2012, 2013. You know, we should, you know, take the number one position, you know, relative to airplane deliveries. We ought to overtake them in 2012, 2013, that timeframe. But I think, you know, longer term, it's easy to get the most orders and it's easy to make the most deliveries, all you have to do is just give the airplanes away. We're not gonna do that. If I look out, you know, 10 years from now, we're gonna have a brand new 47, we're gonna have a brand new 87, we're gonna have a major upgrade to the 737 or a new small airplane and we're gonna have a major upgrade to the triple 7 or we're gonna have a new 300 to 400 passenger airplane. I mean, we're gonna have a whole new set of products in the marketplace and these are products that are gonna create great value for our customer and when you create value for the customer you're gonna sell airplanes and we should be number one for a long time to come. And you know why we're gonna be number one? It's because of those 75,000 people here in Puget Sound that get up in the morning and put their badge on and walk to the, through the doors. I mean, those are the people that make it happen. And I could go tomorrow and they could replace me pretty quick, but it's the collective knowledge of our team that allows us to do the things that we do and they're the ones that'll make it happen.
Dominic	There's an expectation of restraint today in corporate the executive bonuses, Boeing, a lot of Boeing's money, half of its revenue comes from the government and your laying off thousand of people right now, but you've got a special \$3 million bonus on top of your regular bonus for staying, for switching jobs. How is that justified?
Albaugh	No, they didn't, they didn't make me any promises when I came here and I didn't ask the board of the comp committee for this and I certainly appreciate, you know, what they've done, but it's not something that I asked them to do and, you know, I do intend to continue to work here as long as the company will let me stay.
Dominic	Do you understand why it doesn't look good to workers getting laid off when executives get million dollar bonuses?
Albaugh	Well, my job is to make sure that workers don't get laid off and I think that I've got an unwritten bond with the employees that my job is to profitably grow this place. I mean, at the same time I'm asking them to be more efficient, that allows us to sell our planes for less, that allows us to sell more planes, that allows us to create jobs or at least keep the level of jobs at the same, at the

	same number that it's at today and that's what I think my job is.
Dominic	Okay. I'm gonna stop there.
Albaugh	Okay.
Dominic	Thank you very much.
Albaugh	Alright, Dominic. Thanks.