Thank you very much and welcome to Washington everyone. We are 45 days away from an election. The U.S. trade representative is sitting down today in Brussels with his European counterpart to discuss the ’92 aviation bilateral that governs commercial aircraft. And we’ve got James Carville and Mary Matalin tonight as the dinner speakers, to go through politics.

I have two speeches here in my portfolio. One is to introduce James Carville and Mary Matalin and the other one is a draft of my talking points for this morning and I want to make sure I don’t get the two of them confused.

But have no doubt -- be here on time for Carville and Matalin because you’ll be surprised at how well the two of them get along, and regardless of your political views, you’ll find that the distinction between what people say on a Sunday talk show, when their comments are really relegated to ten seconds or less -- a sound bite -- versus what they will have to say when they are essentially articulating their views. We’ll find that each of them is very rational, that they’re also devoted to each other. It should be something of an interesting critique of an election that is coming up as soon as we know it.

Also, this is the largest meeting room in Washington D.C. We’ve got about half of it -- these partitions come down. There are two memorable events that occur here every year. In the fall, the United States Marine Corps gathers here as they do in every location that they are deployed to celebrate the annual birthday of the United States Marine Corps. There are probably about 2,500 people in every corner of this room. The other event is the annual Washington prayer breakfast, which is a unique experience. It’s sort of a prayer political event, with politicians. You’re never quite sure what’s going to be said here.
This conference is an opportunity to focus on strengthening our team. Now when political people think of Boeing, they think of workers who get a paycheck from Boeing every day. But if you live in the world of Jim Morris and Norma Clayton, you know that the people in this room are as much a part of the success of Boeing as are people who wear the Boeing badge every day when they show up to work.

So our focus here is how as a team we can be working together. You’ll hear some of the great engineering. I’ve learned another thing-- my job here in Washington is to talk to the politicians and the political establishment. But I’ve learned that Boeing is really a culture of engineers. The thing about engineers is that everything has to be logical. So if you ask them a question, you will get a 13-slide briefing. You start with A and you go through and you end up with conclusions on page 13.

Now the key in the political environment is, can you start the discussion on Capitol Hill on the conclusion, on slide 13? In the engineering culture, that is not possible. So we become translators.

Now suppliers are a little different. You’re business leaders. You’re out in the community. And for two years now, we’ve been having what we call our Site Managers conference here in Washington. Our site managers from each of the Boeing sites come, but so too, we’ve started to incorporate our suppliers in. We’ve come together for two days. We go through some presentations --the trade issues, the defense budget. We have also had James Carville and Mary Matalin give us the broad political overview. And then we all go to Capitol Hill together.

So over the next two days, we hope to help you, our supplier teammates, realize our common vision and to have a better understanding and appreciation of our company’s business objectives.

You know, Boeing is over 150,000 employees; total revenues slightly less than $52 billion dollars. But this is very much an engine in the global economy and an engine in the United States economy. Almost a billion dollars a week in terms of an economic contribution to the U.S. economy and to our global economy. So you, the suppliers, are one of our greatest assets for communicating our core messages to our constituents here in the country and around the world. Just as all politics are local, so are the perceptions of our team’s integrity, commitment, and our ability to perform. So our collective voice, our employees and our suppliers together, on important issues and programs, is crucial to our overall success.

Now, approximately 70 percent of the value added in most Boeing products come from our supplier partners. So we’ve got suppliers in almost all of the 50 states, in 92 countries; more than 37,000 supplier partners around the world, of which 32,000 are here in the United States.

In contracting out for many of these things that we used to do in-house, Boeing is focusing on its core competencies. High-end design, engineering and systems integration. Our collective voice on issues and programs of importance can be very influential when talking to local, national and international government leaders. We are one team, with a common vision for the future.

The companies and the employees you represent nationally have a significant impact on your local economy through jobs. And you are also key members of the community in which you live.
The issues we deal with here in Washington and with the Administration and with the members of Congress have an impact on our daily business. We work to ensure that U.S. and foreign governments view the products Boeing and our supplier partners make as of high value and high quality. In any given day we address such complicated issues as commercial aviation, global trade, national defense, homeland security and civil space. We collaborate by working with our customers on behalf of the business units. Jim Morris, Norma Clayton, Shep Hill, Bob Krieger; all the other leaders, Jim Albaugh, Nicole Piasecki, we very much are engaged to make sure that we are working together, that we are one voice, that we’re really reflecting one team as we speak with the U.S. government and our other customers around the world.

Now, this is a time also of emerging issues. And in fact, Harry Stonecipher was here Monday and Tuesday, flew out to an investors’ conference in Arizona, Wednesday -- the days of the week just sort of blend together here. Today’s Thursday. Harry came back last night. He’ll be here at the conference tomorrow.

But on Monday, Harry spoke to an audience of probably 700 United States Army officers. Largely colonels and brigadier generals. They brought in academics and government officials. But they wanted a business leader to give a talk at lunch.

So what did Harry talk about? He talked about the decision-making process on the 7E7. And about how we started with the Sonic Cruiser which from an engineering perspective, could be built and marketed. But how, by listening to customers, the Sonic Cruiser became the 7E7. And what we think the 7E7 is, as all of us have had a chance to talk about to government officials, whether it’s Transportation Secretary Norman Mineta or FAA Administrator Marion Blakey, the 7E7 is the next revolution in commercial aviation. There are a lot of aircraft out there. But everybody in this room, every one of their family members in their lifetime, is going to fly on the 7E7.

The other issue that Harry raised with all of the Army officers was the rise of network-centric. How particularly on the defense side, but also ATM and the 7E7, also are network-centric in the sense that we are transitioning from the platform itself being the dominant item to all of the data, all of the capabilities that can be merged and integrated into that platform through the network-centric. Shep Hill is here, he had some briefings this week. But he and Jim Albaugh and the whole team there on the Integrated Defense side have used the Boeing Integration Center, a sort of calling card for a revolution that as distinctly as the 7E7 markets aviation in the future, the network-centric integrated system is really the mechanism that we will see in every platform in the future.

So taking these stories to the government customers is also a critical part of what we do here on behalf of our other colleagues. Now, our collective voices on these issues are very important. And the employees that you represent are very important to us.

Now Boeing has had some challenging issues the last year. Ethics-- we’ve worked hard to make sure that our people and our culture in our extended enterprise demonstrate the highest standard of business conduct and compliance. You know, people are human and some will make mistakes. One person, or two or three or a handful, may not represent the culture and the integrity of an entire organization. But they can certainly damage the reputation of an entire organization.

And also, it’s important that in times of challenges we as a company focus on ethics, we also acknowledge the hard work and dedication that’s out there on the Boeing floor, whether it’s
in engineering or on the factory or in your own businesses, where your performance is
integral to our performance and your reputation is well known to all of us.

But today the state of the company is very sound. You’ll hear from Jim Albaugh, from Nicole
Piasecki, from Harry Stonecipher that Boeing is very well positioned in our major markets
with the right strategy, with great products and with a great team. We are restoring the
reputation for excellence and integrity with our customers, our partners and our employees.
And we look forward to working closely with each of you to ensure that our mutual goals and
objectives are met.

Now, one of the great things about this conference is you’re going to have a chance to ask
lots of questions. So I’m going to start right now— I’ll open up the remaining fifteen minutes
with a Q & A. Each of you has this brochure at your table. We’re working on a second
brochure that would also include our global footprint. But we use this with the Congress,
with the Administration, really to show the economic impact of Boeing and the economic
impact of aerospace in our economy.

Again, you ask “Boeing?” and people will say, “Washington state, Kansas, Pennsylvania,
Florida, California, Missouri.” They may not think of Ohio, but if you look at our chart you’ll
see that from a supplier point of view, we’re spending $3.5 billion dollars in the state of Ohio
with some great suppliers and partners. The same thing for Connecticut. So the economic
footprint of Boeing, both in the United States and around the world as well, is broader than
just simply those of us who wear a Boeing badge to work every morning. So our
responsibility in the Washington office, along with my colleague Joan Tappan, who
organizes our site managers’ visit once a year is indeed, “you are an integral part of us.”
And your voice is our voice. Carrying that together is very important to us.

So with that, I’m happy to take some questions now. We’re 45 days away from an election,
the appropriation bills are marching through Congress, so I’ll open it up.

**************

Q: Rudy, what is your current view on the process that you think will be followed
leading to an award of an Air Force tanker program?

A: There is an analysis of alternatives that the Rand Corporation is doing right now. It is
focusing on the options available to the Air Force. That report is scheduled to be completed
in November and will be presented to Congress as well as to Pentagon leaders.

Additionally, the Air Force announced yesterday that it would ground 30 of the 135E’s
because of corrosion and maintainability problems and that there was another increment of
135E’s that would need to be grounded. So if you start out with a tanker fleet that’s about
535 aircraft, you subtract one third from that number because that’s the one third that are at
any time are in the depot, and then from that number you start subtracting another 35, with
the possibility that another 20 could quickly be grounded, you’re in range of 300 or so
deployable aircraft on any given day.

The Administration recently announced that it was bringing home more troops from Europe
and Korea to make them part of the deployment pool for other expeditionary operations.
And so in that environment, airlift, C-17s, tankers, the use of commercial aircraft that move
our troops back and forth, become all the more critical. Mobility becomes all the more
critical. So we believe that the analysis of alternatives is the next big milestone, and that is
scheduled for November. Likely to come up probably for review after November 2

think there is a process on track for essentially defining the tanker requirement and then stepping forward with options for fulfilling the tanker requirement.

Q: I'm a small supplier and I may not see the big picture. But if we are concerned about the competition with Airbus, it's kind of confusing to me that Boeing would sell some of their major facilities to European countries. Can you comment on that?

A: Sure. Other speakers will probably have slightly different perspectives on this issue. But I think there is a lot of capability that exists in some of our Boeing facilities. I think also the challenge for focusing on your core competency is that you use the marketplace to provide some of the goods and services that come into your production line.

Now one example where a Boeing facility was sold was Spokane, Washington. But yet there were a series of decisions made as Spokane was divested so that there is not a Boeing name in front of the plant. But in terms of the work they do, which was air conditioning ducts and environmental systems, they continue to do that work for Boeing. The fact that the work force is very well trained and very capable means that the new operator of the facility is able to bring in work other than just simply work for Boeing. And that from the perspective of the Spokane community, I think the change in ownership for Spokane was a win in every aspect. The workers still have great jobs. The company is still doing critical work for Boeing. And yet the new supplier with a new operation is able to bring in more work than Boeing has for a very capable facility. So we're trying to do this in a smart way. I think a lot of folks like that Boeing flag in front and like to wear the Boeing badge.

But at the same time, as this room demonstrates, there are lots of capable suppliers that are really doing leading-edge work and that one of our suppliers owning what used to be a Boeing facility and still contributing is part of a smart strategy. So that would be my perspective of it. You can ask some of my colleagues and some of the later panels their view. But I think it's a very good question. When our Boeing teams met with the machinists for a discussion in Chicago about six weeks ago, this was one of the issues discussed. So it is something that we're trying to understand. But as the marketplace evolves, we're really focusing on the core competencies.

Q: This is a shift from aircraft to space systems. Early in this administration there was a lot of talk and a big push toward transformation. Transformation really across all the services and capabilities. In particular, I speak to transformational communications. Transformation communications architecture, of which Boeing is a big player-- providing high band-width, backbone services to the war fighter and all our intelligence communities. Most recently, we have seen an erosion of funding and support for transformational com. I'm just curious, what is Being's overall strategy for TCA? And how can we, as major suppliers and partners, help you see that strategy through?

A: I think I'll come back to the early point I made. The company is heavily invested and I think the government as well is invested in the network-centric intelligence. And that is how to fuse multiple paths of data into decision-makers. Whether the decision-maker is the director of Central Intelligence, or whether the decision-maker is an Army captain who is deployed in a tank unit on the battlefield. We are in a period where we are going from essentially stove-piped modes of communication to integrated modes of communication. And I don't see this changing.
Now the Defense budget is ebbing and flowing, largely because of the cost of operations and maintenance to support the ongoing military activities. So some of the procurement dollars are leaving the building more slowly than Congress appropriated them. But I think that the track of transformation is a track that we’re on and not reversing from. And that the network-centric, whether it’s a new air traffic management system, the Army Future Combat Systems or some of our classified systems, they’re all focused on moving away from the single modes of communication and giving the decision-maker, again, whether it’s the headquarters or the field, access to real-time data.