Boeing Tallies Up $1 Billion Charge

CHICAGO (AP) — Boeing said Tuesday it expects to record a charge of $1 billion in the third quarter due to higher costs in its 747-8 program and difficult market conditions.

Last year, the company said it was delaying deliveries of the 747-8 freighter and passenger jets due to design changes, limited engineering resources and a strike that shut down the company's commercial jet factories for eight weeks.

About $640 million of the charge reflects higher estimated costs to produce 747-8 airplanes at Boeing and its suppliers, Boeing said. Higher fixed expenses and volume-based penalties to suppliers are the main drivers of the additional costs, Boeing said.

The company said that as major components were assembled for initial 747-8 Freighters in the third quarter, it became clear that later-than-expected engineering designs "caused greater than expected rework and disruption in manufacturing."

"This is resulting in additional resources being applied on the program and higher supplier expenses, which are the primary cost drivers," Boeing said.

The company said the remaining $360 million of the charge relates to "challenging market conditions" and its decision to maintain the 747-8 production rate at 1.5 airplanes per month nearly two years longer than previously planned. The company is delaying an increase in 747-8 production to two per month.

Boeing also said it expects the first flight of the 747-8 Freighter by early next year. First delivery of the 747-8 Freighter is expected in the fourth quarter of 2010.

The third-quarter charge is the latest problem for Boeing.

Although it reported a 17 percent rise in second-quarter profit, beating Wall Street expectations, the airplane maker said it was assessing the financial impact of another delay of its new 787 jetliner.

The Chicago-based company said it expected to reevaluate its earnings forecast and announce a revised schedule for the eagerly anticipated 787, in the third quarter. The 787 is nearly two years behind schedule.

Boeing's credibility suffered a blow in June when the company postponed the plane's first test flight and deliveries for the fifth time, saying part of the aircraft needed to be reinforced.

Boeing is grappling with dwindling orders during the global recession, which has

undercut demand for air travel and cargo services. Some airlines have been forced to cancel or delay plans to buy new planes.

Boeing has cut costs, including plans to slash 10,000 jobs and scale back production of some planes.

Boeing said it will update its 2009 financial guidance on Oct. 21 when it reports third-quarter results.

Shares rose 21 cents, to $52.49 in morning trading.

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