Boeing Issues Statement on Indictment

In light of the indictment returned today by the United States Attorney for the District of Columbia, The Boeing Company releases the following information on behalf of its McDonnell Douglas subsidiary:

BACKGROUND

In December 1993, McDonnell Douglas agreed to sell China Aero-Technology Import and Export Corporation (CATIC) certain surplus equipment from a Columbus, Ohio facility that McDonnell had used to manufacture parts and components for the MD-11 and C-17 transport aircraft.

The equipment was comprised of a large quantity of non-regulated items such as desks, chairs and shelving; however, it also included some machine tools, the majority of which were more than 25 years old at the time of the sale, that required export licenses. The purchase price of $5.4 million constituted a fair market value for the equipment, with the licensable machine tools amounting to approximately $1.4 million of the value.

McDonnell Douglas obtained the requisite export licenses in the fall of 1994 and CATIC exported the machine tools to China in late 1994 and early 1995. CATIC had sole responsibility for packing and shipping of the machine tools.

STATEMENT

McDonnell Douglas Corporation did not commit any criminal violations in regard to the sale of the machine tools to the People's Republic of China and intends to vigorously defend against the charges brought by the United States Attorney's Office. It is unfortunate that the prosecutors have apparently not taken the time to learn the facts and gain a full understanding of a rather complicated matter.

We are dismayed at the press leaks attributed to Department of Justice officials - including the false allegations of a secret witness. We know of no such witness and have been told for more than a year that there is no evidence of which we are not aware.

There are a few important facts that need to be stated:

1. All of the activity that is the subject of the indictment occurred in 1993 through 1995, prior to the merger of McDonnell Douglas with a subsidiary of The Boeing Company. The activities involved the Douglas Aircraft Company (Douglas), a separate division of the McDonnell Douglas Corporation. The Boeing Company had and has no involvement in this matter.

2. Douglas is the party that discovered that the machine tools were not in the proper location and promptly notified the United States Government of that fact.

3. Douglas was the party responsible for retrieving the machine tools and making sure they were moved to an appropriate location. This successfully prevented the possibility of them being used for any improper purpose.

4. After discovering and reporting this situation to the United States Government, Douglas fully cooperated in the investigation, providing more than 100,000 pages of documents and making available all employees and former employees for interviews.

5. The Trunkliner Program was a viable project being undertaken by Douglas and the Chinese. Douglas already had produced 35 MD-80s in China under its predecessor program there. The Chinese had paid millions of dollars to Douglas in furtherance of the Trunkliner Program and the Chinese Government directly confirmed that the program was going forward. The U.S. Attorney's claims that Douglas knew the program was a failure when the license applications were submitted are refuted by all of the contemporaneous evidence showing the program was alive and progressing.

6. CATIC's intention to build a new machining center where the machine tools would be used was true and is documented in writing and through evidence gathered by the Cox Committee. CATIC confirmed its intention to the U.S. Embassy the day before the licenses were issued. The U.S. Attorney's claim that there was no plan to build a machining center is preposterous.

7. Throughout the process of applying for and receiving the licenses for the machine tools, Douglas employees were in close contact with the Departments of Commerce, Defense and State in order to learn what information was needed to process the applications. These government agencies had vast experience with applications of this nature. Douglas

provided the agencies with all the information that had been provided by CATIC. No employee had any reason to disbelieve CATIC's representations. In addition, Douglas answered all questions that were put to it in the course of the consideration of the applications. When the licenses were issued, the United States Government knew of all the information that Douglas had and had additional information from its own governmental sources.

Additional Information

Chapter 10 of the Cox Report succinctly addresses the issue: "The China National Aero-Technology Import-Export Corporation's (CATIC) purchase of used machine tools from McDonnell Douglas now part [a subsidiary] of Boeing, is one illustration of the complexities and uncertainties faced by private industry and the U.S. Government in these endeavors."

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