Northrop Grumman Ship Systems (NGSS) is constructing 12 ships just eleven months since the worst natural disaster to ever hit the Mississippi Gulf Coast. In the year following the devastation of Hurricane Katrina, it has delivered and commissioned USS Forrest Sherman (DDG 98), USS San Antonio (LPD 17), and delivered the fifth and last Polar E tanker. Sector-wide, they are still building 12 ships, seven of which are being built in their Mississippi facilities, including two for the United States Coast Guard, in various stages of production.

Hurricane Katrina caused catastrophic damage to the Pascagoula facility, which endured sustained winds in excess of 117 MPH. These winds damaged or destroyed 100% of the buildings. In addition, 80-100% of the cranes, shop equipment, rolling stock, and the electrical system were affected by the 18 ft. storm surge that flooded the shipyard.

NGSS Post-Katrina Status Snapshot

Pascagoula/Gulfport Damage Sustained:
- 80% of Cranes
- 100% of buildings - over 3.9 million sq. ft.
- 100% of shop equipment submerged (more than 80% of shop capacity inoperable)
- 100% of electrical grid (approximately 30 miles of electrical cable to replace)
- 90% of rolling stock damaged or destroyed (trucks, cranes, transporters, forklifts)

Pascagoula/Gulfport Current Status:
- 92% of damaged cranes now in operation
- 38.5% of buildings repaired
- 40% of shops operational
- 90% of electrical substations operational
- Rental units being used while new rolling stock

While recovery is viewed as a complex and, at times, difficult task, NGSS is committed to its employees, projects, and customers to assure a return to full production with the most modern and efficient capabilities and processes. Northrop Grumman is working with outside experts to assist them in determining the best plan for shipyard regeneration. NGSS’ goal is to utilize strategic planners, researchers, and designers who can better position the company for a successful future.

NGSS is working with its customers to re-structure deliveries based on an 8-million labor-hour loss and a significantly damaged infrastructure. Although it is not operating at pre-Katrina production levels, NGSS’ goal is to exceed pre-storm production efficiencies and output. In spite of the fact that the much of the infrastructure is being rebuilt, production continues to increase with progress being made daily. NGSS expects to return to full operations in 2007.

While Katrina has resulted in many challenges for Northrop Grumman, an unexpected benefit of the Pascagoula recovery has been the replacement of two older model steel cutters with more precise plasma cutting machines. These machines have almost doubled the “perfect cuts” of enormous sheets of steel that become hull pieces for the ships they build.

As a result of the hard lessons learned from the storm, NGSS has created and implemented a Heavy Weather Recovery Plan that will enable the yard to execute the recovery process and return to production in the timeliest manner possible. As of June 30, 2006, Northrop Grumman estimates that the total property damage claim to repair or replace assets damaged by the storm, as well as clean up and facility restoration costs will be approximately $850 million. The Company fully expects to recover the damage costs through the company’s comprehensive property damage insurance.
Economic Impact

As of this same date, the company has incurred $311 million in costs to clean-up and restore its facilities, including capital expenditures. The company continues to assess its damage estimates as the process of repairing its operations is performed. Through June 30, 2006, the company has received $233 million in insurance proceeds, the majority of which represent the reimbursement of clean-up and recovery costs and funds to replace facilities destroyed by the storm.

To date, NGSS has written off more than $61 million in assets that were completely destroyed by the storm. Northrop Grumman estimates that delays due to Katrina impacted its ships business area revenue by approximately $230 million for the first half of 2006. In addition to the physical damage to the shipyards, the hurricane caused significant delays and disruption to much of the ongoing work. The effect of that delay and disruption will continue through the entire performance of all the existing contracts.

The hurricane has not significantly impacted the requirements of the company with respect to the Memorandum of Understanding (MOU) with the State of Mississippi. Therefore, NGSS does not anticipate requesting any extensions concerning matching funds and/or employment thresholds.

Congress recently appropriated not less than $140M to be used by the Navy to assist in making infrastructure improvements at all Gulf Coast shipyards doing work for the Navy. In response to this appropriation, NGSS has identified investment opportunities which provide process improvements and satisfy its intention to "Build Back Better." Examples of these opportunities include investments in facilities capital, hurricane hardening, information technology and employees. The infrastructure improvements do not include repairs that are being made due to the storm which are being recovered through company insurance policies. The Navy has formed an internal working group to determine how to manage this funding and anticipates releasing proposal submission guidelines within 90 days.
Employment Impact

According to NGSS, the greatest challenge they face is finding and maintaining skilled workers in a recovering region. Though ninety-percent (90%) of its employees initially came back in the months following Katrina, currently, NGSS is staffed at about 80 percent of pre-Katrina employment numbers. There are approximately 12,000 employees working in Pascagoula and Gulfport and another 5,000 working in New Orleans. These numbers reflect an overall extraordinary response by its workforce in a return to work. The company’s 4-day (10 hour days) work week in place since November 2004 has allowed its workforce to devote more time to restoring their own lives. However, NGSS is still faced with the challenge of absenteeism. Some employees are still coping with their own situations and are unable to achieve a full work week.

NGSS Workforce Assistance

- Extended two weeks full pay, in one lump sum, to all Northrop Grumman employees affected by Hurricane Katrina
- Provided $1 million in relief funds to needy employees
- Thousands of Northrop Grumman employees donated more than $2.5 million to help fellow employees
- A company relief fund provided 6,118 monetary grants to needy Northrop Grumman employees
- Approximately 600 employees without homes lived in on-site, company-provided housing -- housing is still provided for some contract workers from out of the area.
- Northrop Grumman provided thousands of hours of in-kind service to the Gulf Coast community, plus:
  - $1 million in relief funds to the Red Cross
  - $500,000 to the Gulf Coast School Assistance fund
  - $250,000 to the United Way Gulf Coast Region
- Implemented an agreement with Western Union to allow employees who could not pick up their paychecks to receive “net pay” funds in lieu of paychecks
- Enacted amendments to medical plans to ensure there were no lapses in coverage
- Enacted amendments to employees’ savings plans (401k) to allow for disaster-related hardship withdrawals
- Mobilized a professional counseling team from its Employee Assistance Program
- Provided more than 4,000 tetanus and flu vaccines to employees and their families
- Provided employees nearly 74,000 meals free of charge
- Replaced employee personal tools ($1.5M) and personal vehicles destroyed on-site that were not covered by insurance ($400K)
- Employee Appreciation Day ($150K) in Christmas toys and gift cards to employee’s children