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Northrop Grumman Corporation Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) And our first question is from the line of Robert Stallard from Macquarie. Please proceed.

Robert Stallard – Macquarie

Good morning. Hello

Ronald D. Sugar

How are you?

Robert Stallard – Macquarie

Hi, Ron. First of all, I'd like to ask you about what Secretary Gates said the other day about insourcing? And the attempt by the administration to perhaps bring more work back in-house versus putting it with contractors. As you look to the long-term what sort of impact do you think this could have on Northrop Grumman?

Ronald D. Sugar

Well Rob, this is Ron. It's not clear yet. What he did say was that he was looking at adding something between 10,000 and 20,000 new positions in acquisition in the government. To put that in perspective, probably 8 or 10 years ago the government had about 0.5 million acquisition folks. Over the years they reduced that to 200,000 or so. What he is talking about is adding 10,000 to 20,000 back to that 200,000. Anything that strengthens the acquisition capabilities of the defense department we see is very positive for us as well as for the government. In terms of insourcing, there is a significant amount of work that we and others do. Some of it may go back to the government and frankly there is going to be an enormous need for the kind of capabilities that industry has in addition to whatever it is done there. Don't particularly see that as a threat at this point in time, obviously we'll learn more details as the year progresses.

Robert Stallard – Macquarie

Okay, as a quick follow up, actually on the shipbuilding side, we've seen General Dynamics and Lockheed Martin sign up to fixed-price incentive fee contract on a couple of programs in recent months. Do you anticipate future shipbuilding programs for Northrop Grumman following a similar trend?

Ronald D. Sugar

Well Rob, we do have a fixed-price contracts on ships that are in serial production where there is maturity in the learning curve and in fact that's often where we can make very good margins. So, I would expect that overtime with the ships that are in serial production. At the present time we don't have any contractual agreements or relationships on the [swap] destroyer work and obviously through the course of the year we are going to sit down and make sure that we work out business arrangements here that make a great deal of sense for us, as well as, the Navy and for our shareholders. So, at this point in time it's to be determined the form those contracts are going to take.

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