

# ARCHIVED REPORT

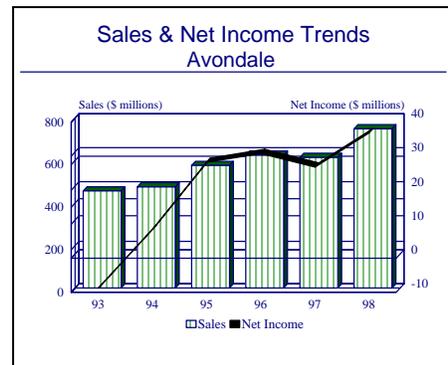
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## Avondale - Archived 11/2000

### Outlook

- Avondale looking forward to smooth sailing as it heads toward the millennium
- With a solid backlog of \$3.1 billion, Avondale has enough work to keep its yards busy for roughly the next five years
- Company is successfully finding commercial work which further builds backlog
- Several anticipated US Navy programs may offer further shipbuilding opportunities to Avondale



### Headquarters

Avondale Industries Inc  
PO Box 50280  
New Orleans, LA 70150  
Telephone: (504) 436-2121  
Web Site: <http://www.avondale.com>

Ogden Corporation is classified as a diversified industrial corporation, similar to AlliedSignal, United Technologies, and Litton Industries. The company spun off several businesses during the mid-1980s, including Ogden Marine in 1984, the Industrial Products and Shipbuilding Division in 1985, and Food Products in 1986. On September 27, 1985, the common stock of the Avondale operations was acquired from Ogden by the Avondale Industries Inc Employee Stock Ownership Plan (ESOP) for \$282 million in cash. This 1985 spin-off created Avondale Industries Inc, an employee-owned company. The ESOP loan was at prime rate and

was secured by 7,337,000 shares of common stock held by ESOP. The loan is expected to be paid back from contributions from the company.

Headquartered in New Orleans, Louisiana, Avondale is one of the leading marine fabricators in the United States, active in the construction, repair, and conversion of oceangoing vessels. In addition, the company manufactures boats and landing craft air cushion vessels and builds a wide range of non-marine industrial facilities and components.

In July 1999, Avondale was acquired by Litton for \$529 million. Avondale has been merged with Litton's Ingalls Shipbuilding to form a new organization called Litton Ship Systems.

Avondale employs about 5,550 people at its Louisiana operations.

### Structure and Personnel

Albert L. Bossier Jr.  
Chairman, President and Chief Executive Officer  
Thomas M. Kitchen  
Vice President, Chief Financial Officer and Secretary

Kenneth B. Dupont  
Vice President

### Product Area

Avondale is one of the leading marine fabricators in the United States, active in the construction, repair, and conversion of oceangoing vessels. In addition, the company manufactures boats and landing craft air cushion vessels and builds a wide range of non-marine industrial facilities and components. Avondale conducts its business in the following manner.

#### **Avondale Industries Inc**

1. Shipyard Division
2. Modular Construction Division
3. Steel Sales Division
4. Boat Division
5. IPDE Technology Division

**Shipyard Division.** The company builds and side launches ships and boats into the Mississippi River. Construction consists of building 150 to 200 modules or units and completely outfitting each with pipe, ventilation systems, etc. The modules are then erected into a ship on the building ways just prior to launch. Avondale can design, fabricate and assemble most types of ships and boats using these techniques.

**Modular Construction Division.** Avondale can pre-fabricate equipment or plants in large, fully outfitted modules and package or kit these products for erection in the field or at the customer's location. Some major

projects have included power stations, a sulfur recovery unit, turbine compressor units, condenser units, nuclear power station assemblies, waste treatment centers, and oil processing units. Primarily, the company promotes itself as a fabricator of land-based industries.

**Steel Sales Division.** This division provides steel products to the marine, oil field construction, and industrial sectors in the Gulf South. Avondale specializes in ASTM A-36 and ABS Grades.

**Boat Division.** Avondale's Boat Division was founded in 1987 to meet growing demands for all types of smaller craft for the armed forces, municipal governments, and private industry. This division produces industry equipment such as towboats, tugs, barges, patrol boats, ferries, and excursion boats.

**IPDE Technology Division.** Integrated Product Data Environment (IPDE) technology provides for sophisticated data storage, management and retrieval for future projects. Among its other features, the technology permits engineering, production and material procurement tasks to be performed cooperatively, thus enhancing the efficiency of the design phase. The IPDE captures data in digital form at creation and then organizes, integrates, maintains and makes available such data to all program participants.

## Facilities

### **Central Region**

Avondale Shipyards Division, PO Box 50280, New Orleans, LA 70150-0280. Telephone: (504) 436-5375 or (504) 436-2121. Located at Avondale's Main Yard are an 81,000-ton drydock and a 20,000-ton Panamax drydock.

The Harvey Quick Repair Division is located on the Gulf Intercoastal Waterway at Harvey, Louisiana. The facility includes five dry docks, a machine shop, an electrical shop, and a propeller shop.

The Westwego Yard and Boat Division is located on the Mississippi River near Avondale's main shipyard, providing services for smaller craft used by the armed services, municipal governments, and private industry. The Boat Division also used facilities at Harvey Quick.

The Algiers, Louisiana, shipyard is used primarily for the repair and overhaul of ocean-going vessels.

The company's Bayou Black facility at Morgan City, Louisiana, builds offshore drilling and production platforms for the petroleum industry.

## Corporate Overview

Avondale Industries is largely a shipbuilding firm fashioned from the Ogden Corporation's ship business and the Lockheed Shipyard. The company was formed in 1985 and through acquisitions has added some capability in the design and fabrication of industrial infrastructure components, such as bridges, factory units, and processing plant units.

### **New Products and Services**

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**ADC(X).** The ADC(X) is a new class of auxiliary vessels designed to deliver food, ammunition and other supplies to the US Navy fleet. The Navy has a projected need for 10 to 12 of these vessels, with the first vessel expected to be awarded in 2000 and enter service in 2006. Avondale is one several shipyards interested in this program.

**JCC(X).** The JCC(X) is envisioned as a new class of ships designed to house sophisticated and unified

command and control capabilities that coordinate the operational activities of all of the military branches. The Navy has a projected need for four of these vessels with the first vessel expected to be awarded in the 2004-2005 timeframe. Avondale is one several shipyards interested in this program.

**USCG Upgrade.** In August 1998, Avondale Industries Inc announced that the alliance headed by Avondale was one of three teams awarded a \$7 million Phase I contract to begin the conceptual design of a program that will comprehensively upgrade the US Coast Guard's aging cutters, aircraft and command and control systems. The Avondale Deepwater Alliance includes Avondale as the prime contractor, Boeing, DAI Inc, John J. McMullen Associates Inc, and Raytheon Systems Company. At the conclusion of the 16 month Phase I portion of the project, the Coast Guard will have a plan for the acquisition, outfitting and maintenance of its resources within an integrated deepwater system. After the evaluation of the Phase I proposals, the Coast Guard will move into Phase II during which time the contracting teams will refine their proposals. The Coast Guard currently plans to award the final deepwater contract in February 2002 and commence a decade long effort, valued at approximately \$8 - \$10 billion, to replace between 30 and 40 multipurpose high- and medium-endurance cutters, fixed- and rotary-wing aircraft and command, control, communications and surveillance gear.

**Crude Carriers.** In June 1997, Avondale signed a \$332 million contract with ARCO Marine Inc of Long Beach, California, for the construction of two 125,000 DWT Jones Act crude carriers. The contract also provides options for three additional ships. Detail design of the ships is to begin immediately, with construction scheduled to start in December 1997. At peak manning, the program will employ approximately 2,200 Avondale employees. Delivery of the first ship is scheduled for the first quarter of 2000.

**LPD-17.** In December 1996, an alliance led by Avondale won the Navy's \$9 billion LPD-17 amphibious ship contract. The team, which includes Avondale, Bath Iron Works, Raytheon, and Intergraph, was awarded a contract to construct the first of an anticipated 12 vessels under the US Navy's LPD-17 program. The initial contract award of \$641.4 million provides for the construction of the name-ship in the class, the USS *San Antonio*. The contract also has options that can be exercised by the US Navy for two additional LPD vessels to be built by the alliance. If the options are awarded, the initial contract value would be pushed to \$1.5 billion. Under the terms of an agreement between the alliance members, the company will build the vessel covered by the December 1996

contract, and if the US Navy exercises the two options, the company would also construct the second, and Bath would construct the third of the three LPD-17 vessels. Hughes will be responsible for total ship integration and the alliance will use Intergraph technology for the design and manufacture of the ship. The LPD-17 was formerly known as the LX class. Preliminary design contracts were also placed with Bath Iron Works, Ingalls Shipyard, National Steel and Shipbuilding, and Newport News. In December 1998, Avondale was awarded \$291.5 million to build the second ship in the LPD-17 program.

### **Plant Expansion / Organization Update**

**Facility Closures.** In 1994, Avondale closed its Avondale Gulfport Marine and Genco Industries operations as these subsidiaries completed their existing contracts. These two facilities are currently offered for sale, and the company is seeking alternative uses for the two sites. Avondale acquired Genco Industries Group in 1990. This Texas-based company fabricated and installed large steel structures and process units for various industries. In addition, Avondale Technical Services is also slated for closure when it completes its current contracts in 1995. Avondale Technical Services was formed in 1990. This operation was begun to establish the company in the service contract business. The unit was built around the company's maintenance and repair contracts.

### **Mergers/Acquisitions/Divestitures**

**Litton Buys Avondale.** In July 1999, Litton Industries completed its purchase of Avondale for approximately \$529 million. Prior to this, Litton had investigated purchasing both Avondale and Newport News Shipbuilding. At the time NNS was itself negotiating the purchase of Avondale. However, Federal regulators opposed Litton's deal to purchase both shipbuilders so the company withdrew its proposal to acquire Newport News Shipbuilding, opting instead to go after Avondale.

The purchase was completed in late July when Avondale shareholders approved the proposed merger of Avondale with Litton Industries Inc by a vote of approximately 71 percent of the total outstanding shares of Avondale common stock. Avondale and Litton closed the merger on August 2, 1999.

Following the acquisition, Litton announced the formation of Litton Ship Systems, a new organization that includes Ingalls Shipbuilding of Pascagoula, Mississippi, and Avondale Industries. Gerald J. St. Pé has been elected executive vice president of Litton Industries and chief operating officer of Litton Ship Systems.

## Teaming/Competition/Joint Ventures

**Avondale Deepwater Alliance.** The Deep Water program was designed to determine the composition of the United States Coast Guard (USCG) Deepwater mission. The Deep Water program is designed to assist the US Coast Guard in developing a strategy to acquire 30-40 multipurpose ships to replace its existing high and medium endurance cutters, as well as aircraft, patrol boats and certain command and control systems. The total value of this program is estimated at approximately \$8 billion. The Avondale Deepwater Alliance is composed of Avondale, Boeing, J. J. McMullen & Associates, DAI Inc, and Raytheon Systems Company.

**Ingalls Shipbuilding.** In September 1997, Avondale Industries, Inc and Ingalls Shipbuilding division of Litton Industries, Inc (LIT), located in Pascagoula, Mississippi, announced an agreement to work together on certain future commercial and Naval shipbuilding programs. Under the Memorandum of Understanding signed by the companies, teaming and specific details of the teaming arrangements (including sharing of work) will be determined on a program-by-program basis as

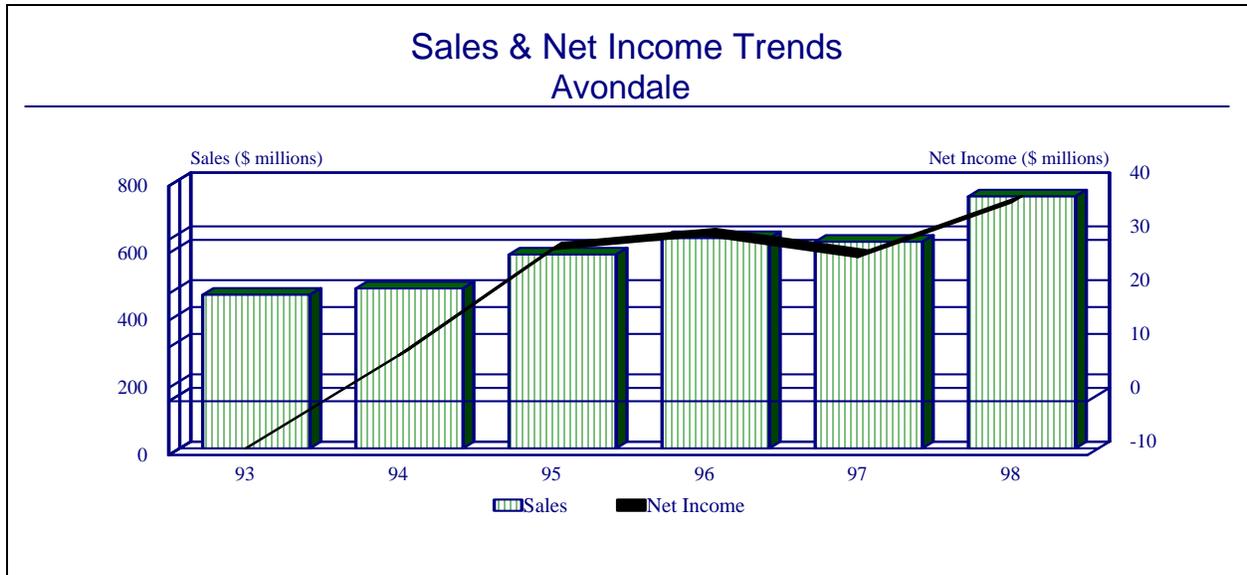
business opportunities develop. The companies said they have already entered into teaming agreements to compete for three major shipbuilding programs: the production of a series of future commercial crude oil carriers for several major oil companies; the building of a new fleet of Coast Guard Cutters; and the design and production of the US Navy's planned new Fleet of Auxiliary Dry Cargo Ships. Previously, Ingalls and Avondale teamed their resources during the 1980s when the World War II battleships, USS *Iowa* and USS *Wisconsin*, were reactivated and returned to service with the Navy fleet. Both shipyards shared in the work.

**Bath Iron Works.** In September 1995, Avondale and Bath Iron Works joined forces to compete for the Navy's LPD-17 transport ship program. Avondale will act as the prime contractor in the teaming arrangement. Bath will provide technical expertise. Should the team win, ships will be developed in New Orleans and in Bath's facilities in Maine. Following this announcement a second team was formed led by Litton Industries Ingalls Shipbuilding division. Other members of this team include Tenneco's Newport News Shipbuilding and National Steel and Shipbuilding.

## Financial Results/Corporate Statistics

Avondale reported 1998 sales of \$749 million, a \$135 million increase compared to 1997 sales of \$614 million. The company reported net income of \$36.9 million for the year compared to income of \$26.8 million for 1997. The rise in net income for 1998 was attributed to a non-recurring income tax benefit of \$9.6 million. Most of Avondale's net sales were generated by activity on shipbuilding contracts with the US Navy.

Y/E December 31	1993	1994	1995	1996	1997	1998
(\$ millions)						
Sales	456.7	475.8	576.3	624.9	614.0	748.9
Percent Govt	88.0	81.0	80.0	81.0	86.0	78.0
Net Income	-8.8	8.5	28.2	30.8	26.8	36.9
Backlog	1300.0	1400.0	1400.0	1800.0	1800.0	2000.0



**Industry Segments**

The company does not report segment financial data.

## Strategic Outlook

As part of a continuing saga in the snail-paced consolidation of the US shipbuilding industry, Litton and Avondale finally tied the knot and merged operations. The deal followed a wild bidding spree between Newport News, Litton, and General Dynamics in early 1999.

Originally, the deal started off simply enough, with Newport News announcing its intention to purchase Avondale in a deal worth \$470 million in January 1999. However, this plan was placed in jeopardy when General Dynamics made an unsolicited offer to purchase Newport News, sans Avondale, for \$1.4 billion. The GD transaction was quickly killed by the Department of Defense on the grounds of competition and monopolization. Had the deal proceeded, an estimated 70 percent of Navy construction dollars would have headed GD's way.

With General Dynamics out of the way, Litton moved in with its own unsolicited offers to buy both Avondale and Newport News in separate transactions valued at \$3 billion in total. Ultimately, Litton's offer of \$529 million was accepted over Newport News bid, while Litton's purchase of Newport News was scuttled by anti-trust concerns.

What remains after this flurry of rationalization is a triumvirate of shipbuilders that will carry US industry into the next century. Under the current landscape there are now three main shipbuilding conglomerates:

General Dynamics, which owns Electric Boat, Bath Iron Works and National Steel and Shipbuilding; Litton with Ingalls Shipbuilding and Avondale; and Newport News Shipbuilding.

The acquisition of Avondale significantly enhances Litton's shipbuilding capability giving the company access to the lucrative LPD-17 and Strategic Sealift programs. The loss of the LPD-17 program in 1997 was a serious blow to Litton's Ingalls operation, which lead some to speculate that Litton would divest the operation. The merger of the two companies is expected to flow smoothly thanks to prior cooperation agreements that were begun in 1997. Under Litton, Avondale and Ingalls will be combined into a new unit, Litton Ship Systems.

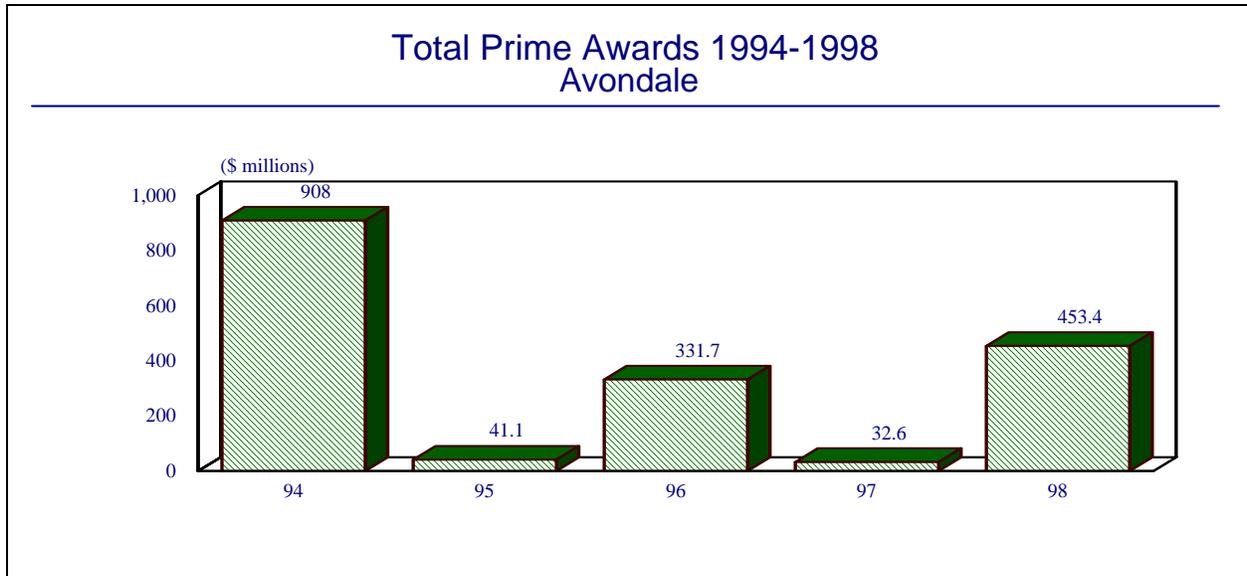
In the years ahead, there are several other anticipated US Navy programs that may offer shipbuilding opportunities to the new Litton Ship Systems. These include a class of prepositioning vessels for the US Marine Corp, up to 14 ADC(X) vessels, 4 JCC(X) vessels and the SC-21, "Surface Combatant 21st Century," the next generation of surface combatant to be built for the US Navy. As currently conceived, this vessel would most closely resemble the AEGIS class destroyer.

Although it took awhile in coming, market forces have reduced what was once an over saturated industry in the US down to three solid competitors.

## Prime Award Summary

The company's prime government awards are shown in the following tables. Zeroes indicate awards, if any, less than \$50,000.

(\$ millions)	1994	1995	1996	1997	1998
DEPT OF TRANSPORTATION	0.0	0.0	3.0	0.0	1.0
NAVY	908.0	41.1	328.7	32.6	452.4
TOTAL	908.0	41.1	331.7	32.6	453.4



### CENTRAL REGION

All of the company's business and major facilities are located in the Louisiana and Mississippi area.

New Orleans, LA (\$ millions)	1994	1995	1996	1997	1998
DEPT OF TRANSPORTATION	0.0	0.0	0.0	0.0	1.0
NAVY	901.7	31.6	318.2	30.8	452.9
TOTAL	901.7	31.6	318.2	30.8	453.9

## Program Activity

Some important aerospace and government programs currently under way at Avondale are listed below. The briefs are intended to provide a listing of programs that are of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate FORECAST INTERNATIONAL binder (for example AIRCRAFT, MILITARY VEHICLES, WARSHIPS, MISSILES, ELECTRONICS, and GAS TURBINES). The following is an outline of the company's business interests:

### (Warships)

#### Warship Programs

Avondale is one of several leading US shipbuilders. Its expertise is in medium to large boats and small- to medium-sized oceangoing vessels. In the repair and overhaul business, the company addresses boats and vessels of all sizes and types.

#### Landing Craft Air Cushion (LCAC)

Initial deliveries for these boats started in 1988 under an award for two vessels. Deliveries from the company's shipyard included five LCACs in 1990. The Navy's

program plans for Avondale call for 15 LCACs in a program that will extend to 1993. The pace of deliveries is expected to remain at the three-per-year level through the contract period. The LCACs are used for troop deployment. In 1994, the LCAC was redesignated MCAC (Multirole Craft Air Cushion). See the Textron company report for additional details regarding the LCAC Navy program.

### **LSD-41 Whidbey Island Class**

This is a landing ship dock designed for transportation and launching of amphibious craft and vehicles in amphibious assault operations and for provision of limited docking and repair services for conventional and air cushion landing craft. Avondale has built all but the first three ships of this class. Eight LSD-41 Whidbey Island class ships are in service. Four LSD-41(CV) Harpers Ferry class have been ordered and are currently under construction.

### **LSD-49 Harpers Ferry Class**

These are dock landing ships intended for the transport and disembarkation of heavy equipment and the logistics supplies in amphibious warfare. All 12 ships (the final eight by Avondale) of the series have been completed.

### **MHC-51 Osprey Class**

This is a coastal and harbor minesweeper/minehunter used to hunt and sweep mines in shallow coastal and harbor areas. The coastal minesweeper was designed to complement the MCM-1 Avenger class mine countermeasures vessels. The MCM-1 class is a new ocean minesweeper, while the MHC is a new coastal minesweeper with lesser capabilities. The MHC is necessary for mine clearance of key Navy and commercial ports to permit breakout by combat and replenishment forces. Avondale produced four ships of this class. The lead yard, Intermarine USA, has built the remaining eight. Production of this series was completed in 1998.

### **Navy Oceanographic Ships T-AGS-45**

The T-AGS-45 is reported to be a newly designed vessel scheduled for delivery in 1993. Typical survey ships range from 2,500 tons to over 20,000 tons, loaded. The unnamed T-AGS-45 will be about 7 tons unloaded. This is a new class of ship for Avondale and, if successful, could advance the company's capabilities in constructing special ships.

### **Strategic Sealift Ship**

In September 1994, Avondale was awarded a \$420 million contract from the Navy to build two strategic sealift ships, the second and third in a potential six-ship program. According to the company, the award "firmly

establishes Avondale as a leading participant in this initiative, which will serve as a core activity for our shipyard over the next several years." Earlier, in September 1993, the Navy contracted Avondale to construct the first strategic sealift ship for delivery in 1997. The \$262 million contract also includes an option for the Navy to purchase an additional five ships from Avondale for delivery through 2001, for a total cost of \$1.3 billion. Funds for the contract will come from the \$2.4 billion appropriated by Congress for a National Defense Sealift Fund. In May 1997, Avondale announced that it was awarded a new option for the construction of the seventh ship in the Bob Hope class of Strategic Sealift Ships. The new option has a value of \$228.2 million upon its exercise which is anticipated in 1999. Avondale is beginning work on a seventh Strategic Sealift vessel under a \$163.2 million contract awarded in December 1998.

### **T-AO-187 Kaiser Class**

This is a fleet oiler that is operated by the Military Sealift Command with a mixed military and civilian crew. This ship's purpose is to provide underway replenishment of fuel and the delivery and receipt of fleet freight and personnel to fleet combatants operating at sea. It can also transport bulk petroleum products from shore depots to fleet-fast combat support ships. Twelve of these ships are in service, with four more building and two suspended incomplete. Avondale has built all but two of this class ship. The last ship entered service in 1996.

### **Commercial Vessels and Units**

The company leverages its expertise gained in the military business to compete successfully in the commercial shipbuilding business. It also applies shipbuilding techniques to the construction of industrial units and sections required in large facility construction programs. Some of the types of commercial programs conducted by Avondale are listed below.

#### **Tankers**

The company has built several oil tankers in the 80,000-ton class.

#### **Crude Oil Carriers**

Avondale has built several crude carriers for ocean transportation. These vessels are in the 170,000-ton class.

#### **Lash Cargo Vessels**

These are flatbed deck-type vessels where crated or boxed cargo is loaded onto the deck and lashed down. They are 20,000- to 30,00-ton class vessels, and the company had built and launched over 20 vessels by 1990.

**Multipurpose Carriers**

Variations to the cargo-type vessels, these are the oceangoing transport ships in the 40,000- to 50,000-ton class. The company has built and launched three or four of these ships.

**Container Vessels**

This is another special transportation oceangoing ship, larger, but similar to the Lash Cargo ship. Avondale has built about five of these vessels.

**Container Ship Enlargement**

In this business, the company builds and inserts a mid-body addition to existing ships. They are "stretched." The company has designed and delivered several.

**Bulk Carrier/Barge**

This is a 25,000-ton transportation vessel. One was built.

**Oil Rig Construction**

Avondale had designed and built over 25 rigs by 1990. In addition to building new rigs, the company converts and modernizes existing platforms.

**Hydroelectric Power Plant**

This is the type of program the company bids on, in terms of industrial infrastructure components. Note the company's joint effort with Westinghouse regarding nuclear power plants.

**Floating Detention Facility**

For the city of New York, Avondale built an 800-bed, floating detention facility (a jail).

**Surface Effect Craft**

The company has experimented with this type of craft. It was intended as a passenger boat. The long-term business potential remains questionable.

**US Contract Awards**

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Below is a listing of major contracts awarded to Avondale from the United States government in the past several years (contracts as of press date). No contracts were awarded in 1995.

<u>Date</u>	<u>Award (\$ millions)</u>	<u>Contract #</u>	<u>Description</u>
<b>1993</b>			
7/15/93	\$232.2	N00024-93-C-2300	Detail design and construction of one WAGB 20 US Coast Guard Icebreaker.
<b>1994</b>			
9/27/94	\$420.3	N00024-93-C-2205	Detail design and construction of two strategic sealift ships.
<b>1996</b>			
11/26/96	\$210.8	N00024-93-C-2205	Modification for the construction of one strategic sealift ship.
12/17/96	\$641.4	N00024-97-C-2202	Construction of the LPD-17 amphibious transport dock ship, with options for construction of LPD-18 and LPD-19.
<b>1997</b>			
5/23/97	\$228.0	N00024-93-C-2205	Modification for FY98 long lead time materials for construction of one strategic sealift ship.
11/14/97	\$209.9	N00024-93-C-2205	Modification to exercise options for construction of a strategic sealift ship.
<b>1998</b>			
2/20/98	\$24.2	N00024-93-C-2205	Modification to exercise an option for long lead materials for a strategic sealift ship.
7/14/98	\$78.0	N00024-97-C-2202	Long lead equipment for LPD-18.
8/4/98	\$9.7	N00024-97-C-2202	Research of new technologies potentially applicable to the LPD-17 class ship.
10/30/98	\$14.4	N00024-93-C-2205	Long lead material for one strategic sealift ship.

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