

SQ/07-54

November 26, 2007

Dear Supplier,

This correspondence is written for the benefit of all suppliers who outsource for, or supply, forgings to fulfill material requirements for Electric Boat (EB) and Northrop Grumman Newport News (NGNN) purchase order compliance.

EB and NGNN recently visited a second tier supplier who provided forgings to its customers who in turn machined the forgings for EB and NGNN. During the visit it was found that the forging process and mechanical specimen preparation and testing were not in compliance with material specifications. Specifically, regardless of specification requirements, the forging supplier was preparing independent test specimens where the "representative working" was questionable.

These nonconformances required an extensive amount of additional mechanical testing of production forgings, a substantial amount of production downtime, and a comprehensive taskforce gathering data for justification to the government to accept the affected forgings. EB and NGNN are still in the throes of this excruciatingly painful process with no assurance of a favorable outcome. Additionally, the cost of this recovery will be in the hundreds of thousands of dollars if not in the millions.

Terms and Conditions of purchase orders and Standard Clause 60-29 specify that the supplier is responsible for full compliance with all requirements of the purchase order inclusive of outsourced work, which includes forgings. Control of subtier supplier performance is a responsibility of the suppliers providing product or services directly to Electric Boat.

Specification EB2678H suggests "Conducting quality audits and source inspections at the subtier facility" as one method to maintain control of subtier suppliers and for Level 1 material "On-site audits, although not specifically required, are recommended and may be requested by the Purchaser."

Due to the problems encountered with these second tier provided forgings, EB and NGNN strongly encourage direct suppliers to exercise more aggressive controls over the performance of forging suppliers. Additionally, Electric Boat and Northrop Grumman Newport News intend to perform forging process audits of selected subtier suppliers and will solicit assistance from the respective responsible direct suppliers. The purpose of this correspondence is to provide advance notification that you will be requested to assist on these process audits of your subtier forging supplier(s) and EB and NGNN anticipate your full cooperation.

Electric Boat is grateful for your participation in the Navy Nuclear Submarine Program. We look to your continued diligence to ensure that all purchase order requirements, including those performed by subtier suppliers, are satisfied explicitly which will provide fully conforming product and services for the fleet.

Sincerely,



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