

NORTHROP GRUMMAN CORP
Form 10-Q/A
February 08, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended
September 30, 2000

Commission File Number

1-3229

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

No. 95-1055798
(I.R.S. Employer Identification
Number)

1840 Century Park East, Los Angeles, California 90067

www.northgrum.com
(Address of principal executive offices and internet site)

(310) 553-6262

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock outstanding as of October 24, 2000

71,813,318 shares

Northrop Grumman Corporation and Subsidiaries

This Form 10-Q/A for the quarter ended September 30, 2000, is a refiling of the identical data previously filed with the graphic presentation converted to HTML format.

Northrop Grumman Corporation and Subsidiaries

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Northrop Grumman Corporation and Subsidiaries

Part I. Financial Information
Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS
OF FINANCIAL POSITION

Dollars in millions	September 30, 2000	December 31, 1999
Assets:		
Cash and cash equivalents	\$ 753	\$ 142
Accounts receivable, net of progress payments of		

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\$2,156 in 2000 and \$1,714 in 1999	1,292	1,402
Inventoried costs, net of progress payments of \$597 in 2000 and \$521 in 1999	603	1,190
Deferred income taxes	14	23
Prepaid expenses	47	36
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Total current assets	2,709	2,793
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Property, plant and equipment	2,298	2,895
Accumulated depreciation	(1,335)	(1,655)
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	963	1,240
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Goodwill, net of accumulated amortization of \$499 in 2000 and \$441 in 1999	3,480	3,469
Other purchased intangibles, net of accumulated amortization of \$444 in 2000 and \$388 in 1999	654	761
Prepaid pension cost, intangible pension asset and benefit trust fund	1,321	946
Assets available for sale	23	26
Investments in and advances to affiliates and sundry assets	204	50
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	5,682	5,252
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	\$ 9,354	\$ 9,285
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Northrop Grumman Corporation and Subsidiaries

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Dollars in millions	September 30, 2000	December 31, 1999
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Liabilities and Shareholders' Equity:		
Notes payable to banks	\$ 5	\$ 25
Current portion of long-term debt	210	200
Trade accounts payable	364	490
Accrued employees' compensation	341	366
Advances on contracts	412	316
Income taxes payable including deferred income taxes of \$568 in 2000 and \$550 in 1999	652	608
Other current liabilities	454	459
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Total current liabilities	2,438	2,464
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Long-term debt	1,605	2,000
Accrued retiree benefits	1,095	1,458
Other long-term liabilities	44	42
Deferred income taxes	367	64
Paid-in capital		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding:		
2000 - 71,725,672; 1999 - 69,719,164	1,177	1,028
Retained earnings	2,647	2,248
Accumulated other comprehensive loss	(19)	(19)
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	3,805	3,257
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	\$ 9,354	\$ 9,285
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The accompanying notes are an integral part of these consolidated financial statements.

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Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF OPERATIONS

Dollars in millions, except per share	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Net sales	\$ 1,731	\$ 1,805	\$ 5,389	\$ 5,436
Cost of sales				
Operating costs	1,278	1,327	3,899	4,035
Administrative and general expenses	211	236	644	702
Operating margin	242	242	846	699
Interest expense	(43)	(64)	(135)	(173)
Other, net	41	4	45	4
Income from continuing operations before income taxes				
and cumulative effect of accounting change	240	182	756	530
Federal and foreign income taxes	90	66	275	195
Income from continuing operations before cumulative effect of accounting change	150	116	481	335
Income from discontinued operations, net of tax	4	12	39	10
Loss on disposal of discontinued operations,				

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net of income tax expense of \$61	(22)	-	(37)	-
Net income before cumulative effect of accounting change	132	128	483	345
Cumulative effect of change in accounting for start-up costs, net of income tax benefit of \$11 in 1999	-	-	-	(16)
Net income	\$ 132	\$ 128	\$ 483	\$ 329
Weighted average shares outstanding, in millions	70.8	69.4	70.1	69.1
Basic earnings per share				
Continuing operations	\$ 2.12	\$ 1.68	\$ 6.86	\$ 4.85
Discontinued operations	.06	.16	.56	.15
Disposal of discontinued operations	(.31)		(.53)	-
Before cumulative effect of accounting change	1.87	1.84	6.89	5.00
Accounting change				(.24)
Basic earnings per share	\$ 1.87	\$ 1.84	\$ 6.89	\$ 4.76
Diluted earnings per share				
Continuing operations	\$ 2.11	\$ 1.66	\$ 6.84	\$ 4.82
Discontinued operations	.06	.17	.55	.15
Disposal of discontinued operations	(.31)		(.52)	
Before cumulative effect of accounting change	1.86	1.83	6.87	4.97
Accounting change	-	-	-	(.24)
Diluted earnings per share	\$ 1.86	\$ 1.83	\$ 6.87	\$ 4.73
Dividends per share	\$.40	\$.40	\$ 1.20	\$ 1.20

The accompanying notes are an integral part of these consolidated financial statements.

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY

Dollars in millions	Nine months ended September 30,	
	2000	1999
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Paid-in Capital		
At beginning of year	\$ 1,028	\$ 989
Stock issued in purchase of business	127	30
Employee stock awards and options exercised	8	9
	<hr/>	<hr/>
	1,177	1,028
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Retained Earnings		
At beginning of year	2,248	1,892
Net income	483	329
Cash dividends	(84)	(83)
	<hr/>	<hr/>
	2,647	2,138
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Accumulated Other Comprehensive Loss	(19)	(31)
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Total shareholders' equity	\$ 3,805	\$ 3,135
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The accompanying notes are an integral part of these consolidated financial statements.

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CASH FLOWS

Dollars in millions	Nine months ended September 30,	
	2000	1999
Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 1,088	\$ 1,297
Other collections	5,276	5,326
Income tax refunds received	13	69
Interest received	17	2
Other cash receipts	8	6
Cash provided by operating activities	6,402	6,700
Uses of Cash		
Cash paid to suppliers and employees	5,624	5,812
Interest paid	134	166
Income taxes paid	47	80
Other cash disbursements	1	9
Cash used in operating activities	5,806	6,067
Net cash provided by operating activities	596	633
Investing Activities		
Proceeds from sale of business	668	
Additions to property, plant and equipment	(152)	(119)
Payment for businesses purchased	(42)	(241)
Proceeds from sale of property, plant and equipment	23	28

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Other investing activities	(6)	
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Net cash provided by(used in) investing activities	491	(332)
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Financing Activities		
Borrowings under lines of credit		23
Repayment of borrowings under lines of credit	(119)	(105)
Principal payments of long-term debt	(286)	(150)
Proceeds from issuance of stock	13	7
Dividends paid	(84)	(83)
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Net cash used in financing activities	(476)	(308)
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Increase(decrease) in cash and cash equivalents	611	(7)
Cash and cash equivalents balance at beginning of period	142	44
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Cash and cash equivalents balance at end of period	\$ 753	\$ 37
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Northrop Grumman Corporation and Subsidiaries

Dollars in millions	Nine months ended September 30,	
	2000	1999
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Reconciliation of Net Income to Net Cash		
Provided by Operating Activities		
Net income	\$ 483	\$ 329
Adjustments to reconcile net income to net cash provided		
Depreciation	132	144

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Amortization of intangible assets	149	144
Common stock issued to employees	7	
Loss on disposal of discontinued operations	37	
Loss(gain) on disposals of property, plant and equipment	(6)	9
Retiree benefits income	(389)	(181)
Decrease(increase) in		
Accounts receivable	(446)	177
Inventoried costs	(185)	(87)
Prepaid expenses	(41)	41
Increase(decrease) in		
Progress payments	658	70
Accounts payable and accruals	(89)	(143)
Provisions for contract losses	(8)	27
Deferred income taxes	330	184
Income taxes payable	26	14
Retiree benefits	(67)	(107)
Other transactions	5	12
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Net cash provided by operating activities	\$ 596	\$ 633
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Noncash Investing Activities:		
Note received from sale of business, net of discount	\$ 149	\$
<hr/>		
Purchase of businesses		
Assets acquired	280	336
Cash paid	(36)	(241)
Stock issued	(127)	(30)
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Liabilities assumed	\$ 117	\$ 65
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The accompanying notes are an integral part of these consolidated financial statements

Northrop Grumman Corporation and Subsidiaries

SELECTED INDUSTRY SEGMENT INFORMATION

Dollars in millions	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Net Sales				
Integrated Systems	\$ 706	\$ 844	\$ 2,371	\$ 2,574
Electronic Sensors & Systems	688	626	1,953	1,900
Logicon	377	376	1,180	1,094
Intersegment sales	(40)	(41)	(115)	(132)
	\$ 1,731	\$ 1,805	\$ 5,389	\$ 5,436
Operating Margin				
Integrated Systems	\$ 51	\$ 104	\$ 264	\$ 284
Electronic Sensors & Systems	44	39	126	138
Logicon	29	23	93	63
Total	124	166	483	485
Other items included in operating margin:				
Corporate expenses	(5)	(8)	(16)	(24)
Deferred state tax provision	(7)	(5)	(31)	(14)
Pension income	130	89	410	252
Operating margin	\$ 242	\$ 242	\$ 846	\$ 699
Contract Acquisitions				
Integrated Systems	\$ 702	\$ 625	\$ 1,695	\$ 2,171
Electronic Sensors & Systems	1,020	478	3,259	2,007
Logicon	336	277	1,144	1,003

Intersegment acquisitions	(25)	(38)	(128)	(91)
	\$ 2,033	\$ 1,342	\$ 5,970	\$ 5,090
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Funded Order Backlog				
Integrated Systems			\$ 3,775	\$ 4,496
Electronic Sensors & Systems			4,830	3,226
Logicon			573	475
Intersegment backlog			(98)	(128)
			\$ 9,080	\$ 8,069
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Northrop Grumman Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. They do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in shareholders' equity, and cash flows in conformity with generally accepted accounting principles. They do, however, in the opinion of management, include all adjustments necessary for a fair statement of the results for the periods presented. The financial statements should be read in conjunction with the Notes and Independent Auditors' Report contained in the company's 1999 annual report as restated for discontinued operations and filed on Form 8-K.

Discontinued Operations

Effective July 24, 2000, the company completed the sale of its commercial aerostructures (Aerostructures) business to The Carlyle Group, pursuant to an Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman and Vought Aircraft Industries, Inc., an entity owned by The Carlyle Group. Aerostructures is a major producer of

commercial and military aircraft subassemblies, the majority of which are sold to The Boeing Company and, for military contracts, ultimately to the U. S. Government. The purchase price was composed of \$668 million in cash and a promissory note for \$175 million, maturing in nine years, with interest payable in kind for four years and interest payable in kind or cash thereafter. The proceeds were received and recorded in the third quarter of 2000. An estimated loss on the sale of \$37 million was recorded in the second and third quarters of 2000. The loss includes the settlement and curtailment of various pension and other post-retirement benefit plans, the write-off of goodwill, and preliminary assessments of both various costs and the value of the promissory note. The amount of the loss may be adjusted in the fourth quarter of 2000, pending the final determination of these amounts.

The company's Consolidated Statements of Income and related footnote disclosures have been restated to reflect Aerostructures as discontinued operations for all periods presented. The balance sheet as of December 31, 1999, and Cash Flows Statements for all periods presented have not been restated. Operating results of the discontinued Aerostructures business are as follows:

\$ in millions	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Net Sales	\$ 100	\$ 317	\$ 669	\$ 1,053
Income before income taxes	\$ 6	\$ 20	\$ 61	\$ 17
Federal and foreign income taxes	2	8	22	7
Income from discontinued operations	\$ 4	\$ 12	\$ 39	\$ 10

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Northrop Grumman Corporation and Subsidiaries

Earnings per Share

Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans.

Basic and diluted earnings per share are calculated as follows:

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(in millions, except per share)	Three months ended		Nine months ended	
	2000	September 30, 1999	2000	September 30, 1999
Basic Earnings Per Share				
Income from continuing operations	\$ 150	\$ 116	\$ 481	\$ 335
Weighted-average common shares outstanding	70.8	69.4	70.1	69.1
Basic earnings per share from continuing operations	\$ 2.12	\$ 1.68	\$ 6.86	\$ 4.85
Diluted earnings per share				
Income from continuing operations	\$ 150	\$ 116	\$ 481	\$ 335
Weighted-average common shares outstanding	70.8	69.4	70.1	69.1
Dilutive effect of stock options and awards	.3	.6	.2	.4
Weighted-average diluted shares outstanding	71.1	70.0	70.3	69.5
Diluted earnings per share from continuing operations	\$ 2.11	\$ 1.66	\$ 6.84	\$ 4.82

Acquisitions

On August 31, 2000, the company completed its acquisition of Comptek Research, Inc., in a stock-for-stock transaction. Comptek Research is a leading supplier of electronic warfare and information dominance technologies for U.S. and international defense customers. Approximately 1.6 million shares of common stock were issued for Comptek's stock. The purchase method of accounting was used to record the acquisition. The major business units of Comptek have been integrated into Northrop Grumman's three operating sectors from the acquisition date.

On October 23, 2000, the company completed its acquisition of Federal Data Corporation, a leading systems integrator and supplier of information technology to the federal government, for \$302 million, including approximately \$130 million in cash, \$154 million in debt that was retired

fourth quarter of 2000 using the purchase method of accounting. Federal Data will be integrated into the