

NORTHROP GRUMMAN CORP /DE/

Form 10-Q

October 24, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007
or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-16411

NORTHROP GRUMMAN CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-4840775
(I.R.S. Employer
Identification No.)

1840 Century Park East, Los Angeles, California 90067
www.northropgrumman.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 for 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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.

As of October 22, 2007, 338,361,747 shares of common stock were outstanding.

NORTHROP GRUMMAN CORPORATION

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Table of Contents**NORTHROP GRUMMAN CORPORATION****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)**

<i>\$ in millions, except per share</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Sales and Service Revenues				
Product sales	\$ 4,310	\$ 4,404	\$ 13,015	\$ 13,550
Service revenues	3,618	3,025	10,179	8,550
Total sales and service revenues	7,928	7,429	23,194	22,100
Cost of Sales and Service Revenues				
Cost of product sales	3,236	3,518	9,987	10,631
Cost of service revenues	3,094	2,576	8,635	7,406
General and administrative expenses	791	786	2,326	2,222
Operating margin	807	549	2,246	1,841
Other Income (Expense)				
Interest income	6	13	19	29
Interest expense	(84)	(86)	(256)	(263)
Other, net	2	1	(22)	(9)
Income from continuing operations before income taxes	731	477	1,987	1,598
Federal and foreign income taxes	241	169	641	482
Income from continuing operations	490	308	1,346	1,116
Loss from discontinued operations, net of tax	(1)	(6)	(10)	(27)
Net income	\$ 489	\$ 302	\$ 1,336	\$ 1,089
Basic Earnings (Loss) Per Share				
Continuing operations	\$ 1.44	\$.89	\$ 3.93	\$ 3.23
Discontinued operations		(.01)	(.03)	(.08)
Basic earnings per share	\$ 1.44	\$.88	\$ 3.90	\$ 3.15
Weighted average common shares outstanding, in millions	340.2	344.7	342.9	345.8
Diluted Earnings (Loss) Per Share				
Continuing operations	\$ 1.41	\$.88	\$ 3.84	\$ 3.17
Discontinued operations		(.02)	(.03)	(.08)

Diluted earnings per share	\$ 1.41	\$.86	\$ 3.81	\$ 3.09
Weighted average diluted shares outstanding, in millions	352.6	351.0	355.4	352.1

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

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(Unaudited)**

<i>\$ in millions</i>	September 30, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	\$ 713	\$ 1,015
Accounts receivable, net of progress payments of \$38,611 in 2007 and \$34,085 in 2006	3,666	3,562
Inventoried costs, net of progress payments of \$1,394 in 2007 and \$1,225 in 2006	1,102	1,176
Deferred income taxes	691	706
Prepaid expenses and other current assets	282	266
Total current assets	6,454	6,725
Property, plant, and equipment, net of accumulated depreciation of \$3,330 in 2007 and \$3,005 in 2006	4,539	4,525
Goodwill	17,658	17,219
Other purchased intangibles, net of accumulated amortization of \$1,654 in 2007 and \$1,555 in 2006	1,109	1,139
Pension and postretirement benefits asset	1,357	1,349
Other assets	1,106	1,052
Total assets	\$ 32,223	\$ 32,009
Liabilities:		
Notes payable to banks	\$ 40	\$ 95
Current portion of long-term debt	111	75
Trade accounts payable	1,540	1,682
Accrued employees' compensation	1,273	1,176
Advance payments and billings in excess of costs incurred	1,532	1,571
Income tax payable	6	535
Other current liabilities	1,698	1,619
Total current liabilities	6,200	6,753
Long-term debt, net of current portion	3,886	3,992
Mandatorily redeemable preferred stock	350	350
Pension and postretirement benefits liability	3,385	3,302
Other long-term liabilities	1,637	997
Total liabilities	15,458	15,394
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
	338	346

Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2007 338,217,941; 2006 345,921,809			
Paid-in capital		10,643	11,346
Retained earnings		7,063	6,183
Accumulated other comprehensive loss		(1,279)	(1,260)
Total shareholders equity		16,765	16,615
Total liabilities and shareholders equity	\$	32,223	\$ 32,009

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

Table of Contents**NORTHROP GRUMMAN CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Net income	\$ 489	\$ 302	\$ 1,336	\$ 1,089
Other Comprehensive Income (Loss)				
Change in cumulative translation adjustment	3		6	17
Change in unrealized loss on marketable securities, net of tax benefit of \$1 and \$0 for the three months ended September 30, 2007, and 2006, and \$0 and \$3 for the nine months ended September 30, 2007, and 2006, respectively	(2)	(2)	(1)	(7)
Reclassification adjustment on write-down of marketable securities, net of tax of \$1 and \$6 for the three and nine months ended September 30, 2006, respectively		1		9
Amortization of unamortized benefit plan costs, net of tax of \$5 and \$14 for the three and nine months ended September 30, 2007	7		22	
Other comprehensive income (loss), net of tax	8	(1)	27	19
Comprehensive income	\$ 497	\$ 301	\$ 1,363	\$ 1,108

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

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NORTHROP GRUMMAN CORPORATION

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)**

	Nine Months Ended September 30	
	2007	2006
<i>\$ in millions</i>		
Operating Activities		
Sources of Cash Continuing Operations		
Cash received from customers		
Progress payments	\$ 5,384	\$ 5,044
Collections on billings	18,015	16,942
Proceeds from insurance carriers related to operations	125	46
Other cash receipts	83	82
Total sources of cash-continuing operations	23,607	22,114