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NORTHROP GRUMMAN CORP /DE/

Form 8-K

November 14, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): November 14, 2001

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

|   |                                     |   |
|---|-------------------------------------|---|
| Delaware<br>(State or other jurisdiction<br>of incorporation) | 1-16411<br>(Commission File Number) | 95-4840775<br>(I.R.S. Employer<br>Identification No.) |
|---|-------------------------------------|---|

|   |                     |
|---|---------------------|
| 1840 Century Park East<br>Los Angeles, California<br>(Address of principal executive offices) | 90067<br>(Zip Code) |
|---|---------------------|

Registrant's telephone number, including area code: (310) 553-6262

Item 5. Other Events

The Company has filed preliminary prospectuses with respect to offerings of 8,000,000 shares of Common Stock and \$400,000,000 Equity Security Units, respectively, pursuant to its Registration Statement No. 333-71290. Each preliminary prospectus contains Unaudited Pro Forma Condensed Combined Financial Statements reflecting the acquisition of Litton Industries, Inc. and the proposed acquisition of Newport News Shipbuilding Inc. The consent of Arthur Andersen, LLP to the incorporation by reference in the Company's Registration Statement on Form S-3, No. 333-71290, of its report contained in the Annual Report on Form 10-K for the year ended December 31, 2000 of Newport News Shipbuilding Inc. is filed herewith.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Proposed to Be Acquired.

The following documents filed with the SEC by Newport News Shipbuilding Inc. (SEC File Number 1-12385) are hereby incorporated by reference.

- . Annual Report on Form 10-K for the fiscal year ended December 31, 2000; and
- . Quarterly Reports on Form 10-Q for the fiscal quarters ended March 18, 2001, June 17, 2001 and September 16, 2001.

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(b) Pro Forma Financial Information.

The Unaudited Pro Forma Condensed Combined Financial Statements reflecting the acquisition of Litton Industries, Inc. and the proposed acquisition of Newport News Shipbuilding Inc. are filed herewith:

Unaudited Pro Forma Condensed Combined Statement of Financial Position, September 30, 2001.

Unaudited Pro Forma Condensed Combined Statements of Income, Nine Months Ended September 30, 2001, Year Ended December 31, 2000.

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The unaudited pro forma condensed combined financial statements presented below are derived from the historical consolidated financial statements of each of Northrop Grumman Corporation ("Northrop Grumman"), Northrop Grumman Systems Corporation ("Northrop Systems"), Litton Industries, Inc. ("Litton") and Newport News Shipbuilding Inc. ("Newport News"). The unaudited pro forma condensed combined financial statements are prepared using the purchase method of accounting, with Northrop Grumman treated as the acquiror and as if the Newport News and Litton acquisitions had been completed as of the beginning of the periods presented for statement of income purposes and as if the Newport News acquisition had been completed on September 30, 2001 for statement of financial position purposes.

The unaudited pro forma condensed combined financial statements are based upon the historical financial statements of Northrop Grumman, Northrop Systems, Litton and Newport News adjusted to give effect to, in the case of the pro forma statements of income, the Litton acquisition and the Newport News acquisition and, in the case of the pro forma statement of financial position, the Newport News acquisition. The pro forma adjustments are described in the accompanying notes presented on the following pages. The pro forma financial statements have been developed from (a) the audited consolidated financial statements of Northrop Systems contained in its Annual Report on Form 10-K/A for the year ended December 31, 2000 and the unaudited consolidated financial statements of Northrop Grumman contained in its Quarterly Report on Form 10-Q for the nine months ended September 30, 2001, (b) the audited consolidated financial statements of Litton contained in its Annual Report on Form 10-K for the fiscal year ended July 31, 2000 and the unaudited consolidated financial statements of Litton contained in its Quarterly Report on Form 10-Q for the six months ended January 31, 2001, and (c) the audited consolidated financial statements of Newport News contained in its Annual Report on Form 10-K for the year ended December 31, 2000 and the unaudited consolidated financial statements of Newport News contained in its Quarterly Report on Form 10-Q for the quarter ended September 16, 2001. In addition, the audited consolidated financial statements of Litton contained in its Annual Report on Form 10-K for the fiscal year ended July 31, 2000 and the unaudited consolidated financial statements of Litton contained in its Quarterly Report on Form 10-Q for the six months ended January 31, 2001 have been used to bring the financial reporting periods of Litton to within 90 days of those of Northrop Systems and Northrop Grumman. The pro forma financial statements should be read in conjunction with these separate historical consolidated financial statements and related notes.

The acquisition of Litton, which is valued at approximately \$5.2 billion, including the assumption of Litton's net debt of \$1.3 billion, is accounted for using the purchase method of accounting. Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective

fair market values, with the excess

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recorded as goodwill. The pro forma financial statements reflect preliminary estimates of the fair market value of the Litton assets acquired and liabilities assumed and the related allocations of purchase price, and preliminary estimates of adjustments necessary to conform Litton data to Northrop Grumman's accounting policies. The pro forma financial statements do not include the recognition of liabilities associated with certain potential restructuring activities. Northrop Grumman is currently reviewing the preliminary estimates of the fair market value of the Litton assets acquired and liabilities assumed, including valuations associated with certain contracts and preliminary valuation study results for intangible assets, property, plant and equipment, and retiree benefits assets and liabilities. Northrop Grumman is also evaluating several possible restructuring activities of Litton operations. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ from the amounts assumed in these pro forma financial statements. Adjustments to the purchase price allocations are expected to be finalized by December 31, 2001, and will be reflected in future Northrop Grumman filings. These adjustments may be material.

As of the date of this report, Northrop Grumman has not completed the valuation studies necessary to arrive at the required estimates of the fair market value of the Newport News assets to be acquired and the Newport News liabilities to be assumed and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform Newport News data to Northrop Grumman's accounting policies. Accordingly, Northrop Grumman has used the historical book values of the assets and liabilities of Newport News and has used the historical revenue recognition policies of Newport News to prepare the pro forma financial statements, with the excess of the purchase price over the historical net assets of Newport News recorded as goodwill and other purchase intangibles. Once Northrop Grumman has completed the valuation studies necessary to finalize the required purchase price allocations and identified any necessary conforming changes, the pro forma financial statements will be subject to adjustment. These adjustments may be material.

The pro forma financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Northrop Grumman would have been had the Litton and Newport News acquisitions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

The pro forma financial statements do not include the realization of cost savings from operating efficiencies, synergies or other restructurings resulting from the Litton and Newport News acquisitions, except for preliminary estimates of costs to consolidate the Litton and Northrop Grumman corporate offices.

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Unaudited Pro Forma Condensed Combined  
Statement of Financial Position  
September 30, 2001  
(\$ in millions)

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|   | Northrop<br>Grumman | Newport<br>News | Pro Forma<br>Adjustment | Com      |
|---|---------------------|-----------------|-------------------------|----------|
| <b>Assets:</b>  |                     |                 |                         |          |
| <b>Current assets</b>   |                     |                 |                         |          |
| Cash and cash equivalents.....                                  | \$ 310              | \$ 66           | \$ --                   | \$       |
| Accounts receivable.....  | 2,297               | 131             | --                      | 2        |
| Inventoried costs.....  | 1,222               | 409             | --                      | 1        |
| Deferred income taxes.....                                      | 35                  | 110             | --                      |          |
| Prepaid expenses and other current assets.....                  | 140                 | 19              | --                      |          |
| <b>Total current assets.....</b>                                | <b>4,004</b>        | <b>735</b>      | <b>--</b>               | <b>4</b> |
| Property, plant and equipment.....                              | 3,297               | 1,616           | --                      | 4        |
| Accumulated depreciation.....                                   | (1,211)             | (950)           | --                      | (2)      |
| <b>Property, plant and equipment, net.....</b>                  | <b>2,086</b>        | <b>666</b>      | <b>--</b>               | <b>2</b> |
| <b>Other assets</b>   |                     |                 |                         |          |
| Goodwill and other purchased intangibles, net.....              | 7,956               | --              | 2,110                   | (a) 10   |
| Prepaid retiree benefits cost and intangible pension asset..... | 2,773               | --              | --                      | 2        |
| Other assets.....   | 395                 | 237             | --                      |          |
|   | 11,124              | 237             | 2,110                   | 13       |
|   | \$17,214            | \$1,638         | \$2,110                 | \$20     |
|   | =====               | =====           | =====                   | =====    |
| <b>Liabilities and Shareholders' Equity:</b>                    |                     |                 |                         |          |
| <b>Current liabilities</b>                                      |                     |                 |                         |          |
| Notes payable and current portion of long-term debt.....        | \$ 134              | \$ 46           | \$ --                   | \$       |
| Accounts payable.....   | 757                 | 87              | --                      |          |
| Accrued employees' compensation.....                            | 629                 | --              | --                      |          |
| Advances on contracts.....                                      | 837                 | --              | --                      |          |
| Income taxes.....   | 373                 | --              | --                      |          |
| Other current liabilities.....                                  | 1,223               | 484             | --                      | 1        |
| <b>Total current liabilities.....</b>                           | <b>3,953</b>        | <b>617</b>      | <b>--</b>               | <b>4</b> |
| Long-term debt.....   | 5,185               | 432             | 917                     | (a) 6    |
| Accrued retiree benefits.....                                   | 1,478               | --              | --                      | 1        |
| Deferred tax and other long-term liabilities.....               | 973                 | 285             | --                      | 1        |
| Mandatorily redeemable preferred stock.....                     | 350                 | --              | --                      |          |
| <b>Shareholders' equity</b>                                     |                     |                 |                         |          |
| Paid-in capital and unearned compensation.....                  | 2,366               | 452             | 1,045                   | (a) 3    |
| Retained earnings.....  | 2,928               | 236             | (236)                   | (a) 2    |
| Accumulated other comprehensive loss.....                       | (19)                | --              | --                      |          |
| Stock employee compensation trust.....                          | --                  | (384)           | 384                     | (a)      |
|   | 5,275               | 304             | 1,193                   | 6        |
|   | \$17,214            | \$1,638         | \$2,110                 | \$20     |
|   | =====               | =====           | =====                   | =====    |

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Unaudited Pro Forma Condensed Combined  
Statement of Income  
Nine Months Ended September 30, 2001  
(\$ in millions, except per share)

|  | Northrop |         | Pro Forma      |           | Newport<br>News | Pro Fo        |  |
|--|----------|---------|----------------|-----------|-----------------|---------------|--|
|  | Grumman  | Litton  | Adjustment     | Combined  |                 | Adjustment    |  |
| Product sales and service revenue.....                     | \$9,254  | \$1,345 | \$ (18) (b)    | \$10,581  | \$1,639         | \$ --         |  |
| Cost of product sales and service revenue                  |          |         |                |           |                 |               |  |
| Operating costs.....                                       | 7,656    | 1,120   | 19 (b) (c) (d) | 8,795     | 1,481           | (140) (h) (j) |  |
| Administrative and general expenses....                    | 908      | 121     | --             | 1,029     | --              | 153 (j)       |  |
| Operating margin.....                                      | 690      | 104     | (37)           | 757       | 158             | (13)          |  |
| Interest expense.....                                      | (269)    | (27)    | (64) (e)       | (360)     | (37)            | (23) (i)      |  |
| Other, net.....  | 64       | 3       | --             | 67        | (1)             | --            |  |
| Income from continuing operations before income taxes..... | 485      | 80      | (101)          | 464       | 120             | (36)          |  |
| Federal and foreign income taxes.....                      | 189      | 30      | (35) (f)       | 184       | 48              | (18) (f) (j)  |  |
| Income from continuing operations.....                     | \$ 296   | \$ 50   | \$ (66)        | \$ 280    | \$ 72           | \$ (18)       |  |
| Less, dividends paid to preferred shareholders.            | (12)     | --      | (6) (g)        | (18)      | --              | --            |  |
| Income available to common shareholders....                | \$ 284   | \$ 50   | \$ (72)        | \$ 262    | \$ 72           | \$ (18)       |  |
| Weighted average shares outstanding, basic.....            | 80.3     |         |                | 85.3      |                 |               |  |
| Weighted average shares outstanding, diluted...            | 81.0     |         |                | 86.1      |                 |               |  |
| Basic earnings per share:                                  |          |         |                |           |                 |               |  |
| Continuing operations.....                                 | \$ 3.53  |         |                | \$ 3.07   |                 |               |  |
| Diluted earnings per share:                                |          |         |                |           |                 |               |  |
| Continuing operations.....                                 | \$ 3.50  |         |                | \$ 3.04 * |                 |               |  |

\* Calculated by dividing income available to common shareholders by average shares diluted, which is calculated assuming preferred shares are not converted to common shares, resulting in the most dilutive effect.

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Unaudited Pro Forma Condensed Combined  
Statement of Income  
Year Ended December 31, 2000  
(\$ in millions, except per share)

|  | Northrop |         | Pro Forma      |           | Newport<br>News | Pro Fo        |  |
|--|----------|---------|----------------|-----------|-----------------|---------------|--|
|  | Grumman  | Litton  | Adjustment     | Combined  |                 | Adjustment    |  |
| Product sales and service<br>revenue.....                        | \$7,618  | \$5,626 | \$ (61) (b)    | \$13,183  | \$2,072         | \$ --         |  |
| Cost of product sales and<br>service revenue                     |          |         |                |           |                 |               |  |
| Operating costs.....   | 5,446    | 4,669   | 88 (b) (c) (d) | 10,203    | 1,870           | (251) (h) (j) |  |
| Administrative and<br>general expenses.....                      | 1,074    | 491     | --             | 1,565     | --              | 271 (j)       |  |
| Operating margin.....  | 1,098    | 466     | (149)          | 1,415     | 202             | (20)          |  |
| Interest expense.....  | (175)    | (105)   | (191) (e)      | (471)     | (53)            | (31) (i)      |  |
| Other, net.....  | 52       | 16      | --             | 68        | 4               | --            |  |
| Income from continuing<br>operations before income<br>taxes..... | 975      | 377     | (340)          | 1,012     | 153             | (51)          |  |
| Federal and foreign income<br>taxes.....                         | 350      | 151     | (119) (f)      | 382       | 63              | (26) (f) (j)  |  |
| Income from continuing<br>operations.....                        | \$ 625   | \$ 226  | \$ (221)       | \$ 630    | \$ 90           | \$ (25)       |  |
| Less, dividends paid to<br>preferred shareholders...             | --       | --      | (25) (g)       | (25)      | --              | --            |  |
| Income available to common<br>shareholders.....                  | \$ 625   | \$ 226  | \$ (246)       | \$ 605    | \$ 90           | \$ (25)       |  |
| Weighted average shares<br>outstanding, basic.....               | 70.6     |         |                | 83.6      |                 |               |  |
| Weighted average shares<br>outstanding, diluted.....             | 70.9     |         |                | 84.0      |                 |               |  |
| Basic earnings per share:  |          |         |                |           |                 |               |  |
| Continuing operations...   | \$ 8.86  |         |                | \$ 7.24   |                 |               |  |
| Diluted earnings per share:                                      |          |         |                |           |                 |               |  |
| Continuing operations...   | \$ 8.82  |         |                | \$ 7.20 * |                 |               |  |

\* Calculated by dividing income available to common shareholders by average shares diluted, which is calculated assuming preferred shares are not converted to common shares, resulting in the most dilutive effect.

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### Notes to Pro Forma Condensed Combined Financial Statements (Unaudited)

- (a) Adjustments to (i) eliminate the equity of Newport News, (ii) record issuance of common stock, (iii) record debt financing for the Newport News acquisition along with additional acquisition related costs, and (iv) record goodwill and other purchased intangibles. The amount of the purchase price allocated to goodwill was calculated based on the following assumptions: (i) the price per share of our common stock is \$90.00 at the completion of our offer and merger with Newport News, which is the midpoint of the common stock range described below; (ii) the exchange ratio is 0.75; and (iii) we issue the maximum number of shares of our common stock available for issuance (16,636,885) in our offer and merger with Newport News. Any fluctuation in our common stock price within the range from \$80.00 to \$100.00 will not have a material impact on our pro forma calculation of goodwill. In the event that our common stock price is greater than \$100.00 at the completion of our offer and merger, the goodwill balance will increase by \$15.0 million for each \$1.00 incremental increase in our common stock price in excess of \$100.00.
- (b) Adjustment to eliminate intercompany sales and cost of sales transactions between Northrop Grumman and Litton.
- (c) Adjustment to amortize the preliminary estimate of goodwill and other purchased intangible assets arising out of the acquisition of Litton over an estimated weighted average life of 26 years on a straight line basis.
- (d) Adjustment to record preliminary depreciation of property, plant and equipment and amortization of capitalized software arising out of the acquisition of Litton.
- (e) Adjustment to record interest expense on, and the amortization of debt issuance costs of, financing for the acquisition of Litton at a weighted average rate of 6.8% and 7.5% for the nine months ended September 30, 2001 and the year ended December 31, 2000, respectively.
- (f) Adjustment to record income tax effects on pre-tax pro forma adjustments, using a statutory tax rate of 35%.
- (g) Adjusted, pro rata, for dividends to preferred shareholders using \$7 per share dividend rate for redeemable preferred stock issued in the acquisition of Litton.
- (h) Adjustment to amortize purchased intangible assets arising out of the Newport News acquisition over an estimated life of 30 years on a straight line basis.
- (i) Adjustment to record interest on debt financing for the Newport News acquisition at the current rate of 3.4% as of October 26, 2001.
- (j) Adjustment to conform Newport News data to classifications utilized by Northrop Grumman.

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(c) Exhibits.

23.1 Consent of Independent Public Accountants.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NORTHROP GRUMMAN CORPORATION  
(Registrant)

Date: November 14, 2001

By: /s/ John H. Mullan

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John H. Mullan, Corporate Vice President  
and Secretary

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EXHIBIT INDEX

| Exhibit<br>Number | Description                               |
|-------------------|---|
| 23.1              | Consent of Independent Public Accountants |

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