

NORTHROP GRUMMAN CORP /DE/

Form 10-Q

July 29, 2010

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2010

or

o 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 x

No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x

No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

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

As of July 27, 2010, 294,220,550 shares of common stock were outstanding.

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## Item 1. Financial Statements

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>\$ in millions, except per share amounts</i>	<b>2010</b>	2009	<b>2010</b>	2009
Sales and Service Revenues				
Product sales	<b>\$ 5,544</b>	\$ 5,420	<b>\$ 11,070</b>	\$ 9,990
Service revenues	<b>3,282</b>	3,125	<b>6,366</b>	6,490
Total sales and service revenues	<b>8,826</b>	8,545	<b>17,436</b>	16,480
Cost of Sales and Service Revenues				
Cost of product sales	<b>4,367</b>	4,345	<b>8,663</b>	7,980
Cost of service revenues	<b>2,973</b>	2,845	<b>5,754</b>	5,808
General and administrative expenses	<b>770</b>	741	<b>1,538</b>	1,459
Operating income	<b>716</b>	614	<b>1,481</b>	1,233
Other (expense) income				
Interest expense	<b>(68)</b>	(70)	<b>(148)</b>	(143)
Other, net	<b>(10)</b>	13	<b>(3)</b>	21
Earnings from continuing operations before income taxes	<b>638</b>	557	<b>1,330</b>	1,111
Federal and foreign income tax (benefit) expense	<b>(73)</b>	189	<b>157</b>	377
Earnings from continuing operations	<b>711</b>	368	<b>1,173</b>	734
Earnings from discontinued operations, net of tax		26	<b>7</b>	49
Net Earnings	<b>\$ 711</b>	\$ 394	<b>\$ 1,180</b>	\$ 783
Basic Earnings Per Share				
Continuing operations	<b>\$ 2.37</b>	\$ 1.14	<b>\$ 3.90</b>	\$ 2.26
Discontinued operations		0.08	<b>.02</b>	.15
Basic earnings per share	<b>\$ 2.37</b>	\$ 1.22	<b>\$ 3.92</b>	\$ 2.41
Weighted-average common shares outstanding, in millions	<b>299.6</b>	322.0	<b>301.1</b>	324.4
Diluted Earnings Per Share				
Continuing operations	<b>\$ 2.34</b>	\$ 1.13	<b>\$ 3.85</b>	\$ 2.23
Discontinued operations		.08	<b>.02</b>	.15

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Diluted earnings per share	<b>\$ 2.34</b>	\$ 1.21	<b>\$ 3.87</b>	\$ 2.38
Weighted-average diluted shares outstanding, in millions	<b>303.8</b>	325.8	<b>305.0</b>	328.9
Net earnings (from above)	<b>\$ 711</b>	\$ 394	<b>\$ 1,180</b>	\$ 783
Other comprehensive income				
Change in cumulative translation adjustment	<b>(24)</b>	38	<b>(52)</b>	24
Change in unrealized gain on marketable securities and cash flow hedges, net of tax		28		35
Change in unamortized benefit plan costs, net of tax	<b>39</b>	53	<b>79</b>	106
Other comprehensive income, net of tax	<b>15</b>	119	<b>27</b>	165
Comprehensive income	<b>\$ 726</b>	\$ 513	<b>\$ 1,207</b>	\$ 948

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

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(Unaudited)**

<i>\$ in millions</i>	<b>June 30, 2010</b>	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 2,044</b>	\$ 3,275
Accounts receivable, net of progress payments	<b>4,160</b>	3,394
Inventoried costs, net of progress payments	<b>1,148</b>	1,170
Deferred tax assets	<b>648</b>	524
Prepaid expenses and other current assets	<b>384</b>	272
Total current assets	<b>8,384</b>	8,635
Property, plant, and equipment, net of accumulated depreciation of \$4,465 in 2010 and \$4,216 in 2009	<b>4,763</b>	4,868
Goodwill	<b>13,517</b>	13,517
Other purchased intangibles, net of accumulated amortization of \$1,921 in 2010 and \$1,871 in 2009	<b>823</b>	873
Pension and post-retirement plan assets	<b>308</b>	300
Long-term deferred tax assets	<b>844</b>	1,010
Miscellaneous other assets	<b>1,055</b>	1,049
<b>Total assets</b>	<b>\$ 29,694</b>	\$ 30,252
<b>Liabilities</b>		
Notes payable to banks	<b>\$ 13</b>	\$ 12
Current portion of long-term debt	<b>760</b>	91
Trade accounts payable	<b>1,643</b>	1,921
Accrued employees' compensation	<b>1,229</b>	1,281
Advance payments and billings in excess of costs incurred	<b>1,979</b>	1,954
Other current liabilities	<b>2,042</b>	1,726
Total current liabilities	<b>7,666</b>	6,985
Long-term debt, net of current portion	<b>3,438</b>	4,191
Pension and post-retirement plan liabilities	<b>4,487</b>	4,874
Other long-term liabilities	<b>1,200</b>	1,515
Total liabilities	<b>16,791</b>	17,565
<b>Commitments and Contingencies (Note 11)</b>		
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2010 294,979,243; 2009 306,865,201	<b>295</b>	307
Paid-in capital	<b>7,949</b>	8,657
Retained earnings	<b>7,646</b>	6,737



Accumulated other comprehensive loss	<b>(2,987)</b>	(3,014)
Total shareholders' equity	<b>12,903</b>	12,687