

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 29549

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

For the quarterly period ended June 30, 1998
or

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

For the transition period from _____ to _____

Commission File Number 1-3229

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

No. 95-1055798

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1840 Century Park East, Los Angeles, California 90067
(address of principal executive offices)

(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 x

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 July 24, 1998 68,796,037 shares

Northrop Grumman Corporation and Subsidiaries

Part I. Financial Information

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

Dollars in millions, except per share	Three months		Six months	
	ended June 30, 1998	ended June 30, 1997	ended June 30, 1998	ended June 30, 1997
Net sales	\$2,139	\$2,228	\$4,153	\$4,346
Cost of sales				
Operating costs	1,710	1,746	3,328	3,451
Administrative and general expenses	221	249	410	466
Operating margin	208	233	415	429
Merger costs	(6)	(2)	(186)	(2)

Interest expense	(59)	(65)	(114)	(129)
Other, net	4	5	13	7

Income before income taxes	147	171	128	305
Federal and foreign income taxes	54	63	47	113

Net income	\$ 93	\$ 108	\$ 81	\$ 192
=====				
Weighted average shares outstanding, in millions	68.6	66.7	68.2	66.5
Basic earnings per share	\$ 1.36	\$ 1.62	\$ 1.19	\$ 2.89
Diluted earnings per share	\$ 1.34	\$ 1.59	\$ 1.17	\$ 2.84
Dividends per share	\$.40	\$.40	\$.80	\$.80
=====				

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 FINANCIAL POSITION

Dollars in millions	June 30, 1998	December 31, 1997

Assets		
Cash and cash equivalents	\$ 40	\$ 63
Accounts receivable, net of progress payments of \$3,254 in 1998 and \$2,772 in 1997	1,432	1,441
Inventoried costs, net of progress payments of \$550 in 1998 and \$495 in 1997	1,582	1,283
Deferred income taxes	80	82
Prepaid expenses	82	67

Total current assets	3,216	2,936

Property, plant and equipment	3,105	3,109
Accumulated depreciation	(1,784)	(1,763)

	1,321	1,346

Goodwill, net of accumulated amortization of \$290 in 1998 and \$244 in 1997	3,375	3,421
Other purchased intangibles, net of accumulated amortization of \$254 in 1998 and \$208 in 1997	850	896
Deferred income taxes	456	485
Prepaid pension cost, intangible pension asset and benefit trust funds	625	452
Investments in and advances to affiliates and sundry assets	134	141

	5,440	5,395

	\$ 9,977	\$ 9,677
=====		

Northrop Grumman Corporation and Subsidiaries

Dollars in millions	June 30, 1998	December 31, 1997

Liabilities and Shareholders' Equity		
Notes payable to banks	\$ 36	\$ 91
Current portion of long-term debt	150	200
Trade accounts payable	465	463
Accrued employees' compensation	364	366
Advances on contracts	421	410
Income taxes payable, including deferred income taxes of \$689 in 1998 and \$717 in 1997	737	733
Other current liabilities	454	452

Total current liabilities	2,627	2,715

Long-term debt	2,706	2,500
Accrued retiree benefits	1,740	1,716
Other long-term liabilities	45	48
Deferred income taxes	88	75
Paid-in capital		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding: 1998 -- 68,743,309; 1997 -- 67,278,876	959	838
Retained earnings	1,834	1,807
Unfunded pension losses, net of taxes	(22)	(22)

	2,771	2,623

	\$9,977	\$9,677
=====		

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	Six months ended June 30,	
	1998	1997

Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 861	\$1,112
Other collections	3,354	3,101
Income tax refunds received	8	1
Interest received	1	3
Other cash receipts	4	2

Cash provided by operating activities	4,228	4,219

Uses of Cash		
Cash paid to suppliers and employees	4,092	3,927
Interest paid	106	119
Income taxes paid	29	30
Other cash disbursements	29	3

Cash used in operating activities	4,256	4,079

Net cash provided by (used in) operating activities	(28)	140

Investing Activities		
Additions to property, plant and equipment	(86)	(88)
Proceeds from sale of property, plant and equipment	13	46
Proceeds from sale of affiliates/operations		20
Other investing activities	(1)	(1)
Net cash used in investing activities	(74)	(23)
Financing Activities		
Borrowings under lines of credit	251	278
Repayment of borrowings under lines of credit		(247)
Principal payments of long-term debt	(150)	(100)
Proceeds from issuance of stock	32	5
Dividends paid	(54)	(48)
Net cash provided by (used in) financing activities	79	(112)
Increase(decrease) in cash and cash equivalents	(23)	5
Cash and cash equivalents balance at beginning of period	63	123
Cash and cash equivalents balance at end of period	\$ 40	\$ 128

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Northrop Grumman Corporation and Subsidiaries

Dollars in millions	Six months ended June 30,	
	1998	1997
Reconciliation of Net Income to Net Cash Provided by(used in) Operating Activities		
Net income	\$ 81	\$ 192
Adjustments to reconcile net income to net cash provided(used)		
Depreciation	95	114
Amortization of intangible assets	92	93
Common stock issued to employees	88	1
Loss on disposals of property, plant and equipment	4	1
Retiree benefits income	(97)	(24)
Decrease(increase) in		
Accounts receivable	(261)	(403)
Inventoried costs	(354)	(216)
Prepaid expenses	(16)	5
Increase(decrease) in		
Progress payments	310	254
Accounts payable and accruals	42	107
Provisions for contract losses	24	15
Deferred income taxes	16	63
Income taxes payable	32	23
Retiree benefits	(88)	(90)
Other transactions	4	5
Net cash provided by (used in) operating activities	\$ (28)	\$ 140

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 CHANGES IN SHAREHOLDERS' EQUITY

Six months ended June 30,

Dollars in millions	1998	1997

Paid-in Capital		
At beginning of year	\$ 838	\$ 784
Employee stock awards and options exercised	121	7
	959	791

Retained Earnings		
At beginning of year	1,807	1,502
Net income	81	192
Cash dividends	(54)	(48)
	1,834	1,646

Unfunded Pension Losses, Net of Taxes	(22)	(4)

Total shareholders' equity	\$2,771	\$2,433
=====		

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

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Northrop Grumman Corporation and Subsidiaries

SELECTED INDUSTRY SEGMENT INFORMATION

Dollars in millions	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997

Net Sales				
Aircraft	\$ 989	\$ 1,072	\$ 1,959	\$ 2,057
Electronics	971	986	1,871	1,961
Information Technology and Services	288	263	523	506
Intersegment sales	(109)	(93)	(200)	(178)
	\$ 2,139	\$ 2,228	\$ 4,153	\$ 4,346
=====				
Operating Profit				
Aircraft	\$ 162	\$ 143	\$ 309	\$ 277
Electronics	57	95	135	177
Information Technology and Services	32	23	55	47
	251	261	499	501
Adjustments to reconcile operating profit to operating margin:				
Other income included above		(4)	1	(4)
State and local income taxes	(10)	8	(20)	(5)
General corporate expenses	(33)	(32)	(65)	(63)
	\$ 208	\$ 233	\$ 415	\$ 429
=====				
Contract Acquisitions				
Aircraft	\$ 793	\$ 1,271	\$ 1,643	\$ 1,906
Electronics	720	1,120	1,386	2,345
Information Technology and Services	260	202	510	430
Intersegment acquisitions	(107)	(94)	(194)	(189)
	\$ 1,666	\$ 2,499	\$ 3,345	\$ 4,492

Funded Order Backlog		
Aircraft	\$ 5,677	\$ 6,894
Electronics	4,977	5,542
Information Technology and Services	434	435
Intersegment backlog	(34)	(58)
	\$11,054	\$12,813

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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 1997 Annual Report on Form 10-K.

Merger Agreement

On July 3, 1997, the company announced that it had entered into a definitive agreement with Lockheed Martin Corporation to combine the companies. On February 26, 1998, shareholders of Northrop Grumman approved the merger. On March 23, 1998, the U. S. Government filed suit to block the combination. On July 16, 1998, Lockheed Martin notified the company that it was terminating its merger agreement with the company pursuant to the terms of the merger agreement.

The company recorded a charge of \$186 million through June 30, 1998, for costs related to the proposed merger. The charge covers vesting of restricted stock which became issuable following shareholder approval of the merger and other costs associated with the proposed merger, such as investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

Comprehensive Income

The company has adopted Statement of Financial Accounting Standards No. 130 - Reporting Comprehensive Income. This standard establishes new standards for the presentation and disclosure of other comprehensive income. There were no material items of other comprehensive income for the first six months of 1998 or 1997.

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.

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Basic and diluted earnings per share are calculated as follows:

Three months ended June 30,	Net Income ----- (millions)	Shares ----- (millions)	Earnings per Share -----
1998			
Basic EPS	\$ 93 =====	68.6	\$ 1.36 =====
Dilutive effect of stock options and awards		1.0 -----	
Diluted EPS	\$ 93 =====	69.6 =====	\$ 1.34 =====
1997			
Basic EPS	\$ 108 =====	66.7	\$ 1.62 =====
Dilutive effect of stock options and awards		1.2 -----	
Diluted EPS	\$ 108 =====	67.9 =====	\$ 1.59 =====
Six months ended June 30,			
1998			
Basic EPS	\$ 81 =====	68.2	\$ 1.19 =====
Dilutive effect of stock options and awards		1.3 -----	
Diluted EPS	\$ 81 =====	69.5 =====	\$ 1.17 =====
1997			
Basic EPS	\$ 192 =====	66.5	\$ 2.89 =====
Dilutive effect of stock options and awards		1.2 -----	
Diluted EPS	\$ 192 =====	67.7 =====	\$ 2.84 =====

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Northrop Grumman Corporation and Subsidiaries

Item 2. MANAGEMENT'S DISCUSSION AND
ANALYSIS OF THE COMPANY'S FINANCIAL
CONDITION AND THE RESULTS OF ITS OPERATIONS

Sales were 4 percent lower in both the second quarter and first half of 1998 versus the same periods of 1997, reflecting decreases in both the aircraft and electronics business segments.

Aircraft segment sales decreased in the second quarter and first half of 1998 versus comparable periods of 1997 as a result of lower B-2 volume on both production and EMD contracts and the absence of sales from the company's Grumman Allied Industries subsidiary, which was sold last year. These declines are partially offset by increased Boeing jetliner shipset deliveries. Fifty-five 747 shipsets are now expected to be delivered in 1998.

Electronics segment sales for the second quarter and first six months of 1998 declined as compared to the same periods last year due to lower volume in the marine systems and other electronics business areas.

Sales by major program/business area and units delivered were:

\$ in millions	Three months		Six months	
	1998	1997	1998	1997
B-2	\$ 314	\$ 395	\$ 641	\$ 760
Surveillance Aircraft (E-8 Joint Stars, E-2)	291	278	577	523
Boeing Jetliners	249	221	482	425
Airborne Radar	167	151	315	296
Marine Systems	128	140	242	272
F/A-18	135	123	281	252
Electronic Countermeasures	95	90	201	193
Space	76	78	149	164
Airspace Management	75	63	138	129
C-17	48	75	108	142
Information Technology and Services	283	259	514	500
All Other	278	355	505	690
	\$ 2,139	\$ 2,228	\$ 4,153	\$ 4,346

Units	Three months		Six months	
	1998	1997	1998	1997
B-2	1		2	
747	13	11	26	22
F/A-18 C/D	8	8	17	18
C-17		2	2	4

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Northrop Grumman Corporation and Subsidiaries

Operating margin includes pension income, net of deferred state taxes, of \$62 million for the second quarter and \$121 million for the first six months of 1998 as compared with \$29 million and \$58 million for the same periods of 1997. Substantially all of the pension income is attributable to the aircraft segment. Operating margin in the second quarter 1997 benefited \$10 million from a reduction in deferred state income taxes.

The amount and rate of operating profit earned on sales increased in the aircraft segment in the second quarter and first half of 1998 as compared with the same periods of 1997. The aircraft segment benefited in the second quarter and first six months of 1998 from increased pension income as well as the delivery of one B-2 bomber in each of the first two quarters of 1998 versus none in the first half of 1997. These improvements were partially offset by decreases in B-2 production, F/A-18C/D and C-17 sales and a \$4 million charge recorded in the second quarter of 1998 related to plant closures.

Electronics segment operating profit for the second quarter 1998 was reduced \$8 million for a charge related to plant closures and \$25 million by cumulative margin rate adjustments on the E-8 Joint STARS and E-2C programs. An increase in the cost estimate to complete the remanufacture of the 707 jetliner, used as the Joint STARS platform, for Aircraft P4 was the primary cause of the Joint STARS adjustment. The company has announced that it is in discussions with the Air Force to identify and implement improved ways to reduce the extensive remanufacturing work required on future aircraft. The outcome of these discussions cannot be predicted at this time. The E-2C charge was due to increased costs incurred to overcome parts shortages on the program. Last year's first half included a \$13 million pretax charge, recorded in the first quarter, related to an increase in the cost estimate to complete the company's work on the Directional Infrared Countermeasures (DIRCM) program.

The information technology and services business segment reported improved operating profit rates on increased sales for both the second quarter and first half of 1998 as compared with the same periods of 1997.

In the first six months of 1998, the company recorded pretax charges of \$186 million (\$1.73 per share after tax) for merger costs related to the company's proposed combination with Lockheed Martin Corporation. The charges cover vesting of restricted stock that became issuable following shareholder approval of the merger as well as other costs associated with the proposed combination such as investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information. On July 16, 1998, Lockheed Martin Corporation notified the company that it was terminating its merger agreement with the company pursuant to the terms of the merger agreement.

Northrop Grumman Corporation and Subsidiaries

Interest expense was \$59 million for the second quarter 1998 and \$114 million for the first half of 1998, down \$6 million and \$15 million, respectively, from the same periods last year. The decreases resulted principally from a lower average level of borrowings in the first half of 1998 compared with the first half of 1997.

During the first half of 1998, \$28 million of cash was used in operations versus the \$140 million that was generated by operations in the first half of 1997. The decrease is primarily due to the increase in inventory to support increased production levels of Boeing jetliners. Cash generated from operating activities is expected to be sufficient in the last half of this year to finance capital expenditures and pay interest and dividends, although it is not expected that the year end debt level will decrease. The company's liquidity and financial flexibility will continue to be provided by cash flow generated by operating activities, supplemented by the unused borrowing capacity available under the company's credit agreement and other short-term credit facilities.

Forward-Looking Information

This quarterly report on Form 10-Q, and, not by way of limitation, certain statements and assumptions in Management's Discussion and Analysis, contain or are based on "forward-looking" statements and information (as defined in the Private Securities Litigation and Reform Act of 1995) that involve risk and uncertainties, including statements and assumptions that reflect the company's views with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. The company's operations are necessarily subject to various risks and uncertainties; actual outcomes are dependent upon many factors, including, without limitation, the company's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support as well as other economic, political and technological risks and uncertainties, including risks detailed in the company's filings with the Securities and Exchange Commission, including, not by way of limitation, any Form 10-K, Form 10-Q and proxy statements, among others.

Northrop Grumman Corporation and Subsidiaries

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The company has fixed-rate long-term debt obligations, most of which are not callable until maturity. The company also has financial instruments that are subject to interest rate risk, principally variable-rate short-term debt outstanding under the Credit Agreement. The company may enter into interest rate swap agreements to offset the variable-rate characteristics of these loans. At June 30, 1998, no interest rate swap agreements were in effect.

Only a small portion of the company's transactions are contracted in foreign currencies. The company does not consider the market risk exposure relating to foreign currency exchange to be material.

Item 1. Legal Proceedings

U.S. v. Lockheed Martin Corporation and Northrop Grumman Corporation

On July 16, 1998, the Board of Directors of Lockheed Martin Corporation voted to terminate the Agreement and Plan of Merger dated July 2, 1997. The Government has indicated that it will dismiss the antitrust litigation which was filed on March 23, 1998, against Lockheed Martin Corporation and Northrop Grumman Corporation to block the merger.

Zabielski v. Kent Kresa, et al.

On July 23, 1998, Northrop Grumman Corporation (the "Company") received notice that a shareholder derivative lawsuit had been filed against the Company, its Board of Directors and its Elected Officers. The action is filed in the Superior Court of California for the County of Los Angeles and contains allegations that the individual defendants breached their fiduciary duties to the Company and to its shareholders. The complaint also contains allegations that certain defendants were unjustly enriched by stock trades that were completed in violation of Federal and State Securities Laws. The complaint also threatens a direct action based on the same allegations. The Company and the individual defendants deny the allegations and intend to vigorously defend the action.

Item 4. Submission of Matters to a Vote of Security Holders

(a) Annual Meeting --

The annual meeting of stockholders of Northrop Grumman Corporation was held on June 30, 1998.

(b) Election of Directors --

The following Class I Director nominees were elected at the annual meeting:

Jack R. Borsting
Aulana L. Peters
Richard M. Rosenberg
Richard J. Stegemeier

The Directors whose terms of office continue are:

John T. Chain, Jr.
Jack Edwards
Phillip Frost
Kent Kresa
Robert A. Lutz
John E. Robson
John Brooks Slaughter

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Northrop Grumman Corporation and Subsidiaries

(c) The matters voted upon at the meeting and the results of each vote are as follows:

For Directors:	Votes For -----	Votes Withheld -----
Jack R. Borsting	55,733,469	966,095
Aulana L. Peters	55,156,433	1,543,131
Richard M. Rosenberg	55,731,194	968,370
Richard J. Stegemeier	55,722,829	976,735

Votes For -----	Votes Against -----	Shares Abstaining -----	Broker Non-Votes -----
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Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors	56,020,319	461,452	217,893	-
Shareholder Proposal regarding foreign military sales	2,227,673	45,284,384	2,295,019	6,892,488
Shareholder Proposal regarding executive severance agreements	8,240,469	40,601,393	785,511	6,892,191

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
27 Financial Data Schedule
- (b) Reports on Form 8-K
No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended June 30, 1998.

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Northrop Grumman Corporation and Subsidiaries

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 thereunto duly authorized.

Northrop Grumman Corporation (Registrant)

Date: July 30, 1998 by/s/R. B. Waugh, Jr.
Richard B. Waugh, Jr.
Corporate Vice President and Chief
Financial Officer

Date: July 30, 1998 by/s/J. H. Mullan
John H. Mullan
Acting Secretary

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DEC-31-1998

JUN-30-1998

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0

1,530

98

1,582

3,216

3,105

1,784

9,977

2,627

2,856

0

0

959

1,812

9,977

4,153

4,153

3,738

3,738

173

0

114

128

47

81

0

0

0

81

1.19

1.17