

## 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 March 31, 1997  
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

(State or other jurisdiction of  
incorporation or organization)

No. 95-1055798

(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 April 25, 1997 58,024,695 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 ended March 31,	
	1997	1996
Net Sales	\$1,964	\$1,603
Cost of sales		
Operating costs	1,576	1,299
Administrative and general expenses	206	165
Operating margin	182	139
Other, net	2	9
Interest expense	(64)	(46)
Income before income taxes	120	102
Federal and foreign income taxes	45	41
Net income	\$ 75	\$ 61
Weighted average shares outstanding, in millions	58.0	49.6
Earnings per share	\$ 1.30	\$ 1.23
Dividends per share	\$ .40	\$ .40

## Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS  
OF FINANCIAL POSITION

Dollars in millions	March 31, 1997	December 31, 1996
<b>Assets</b>		
Cash and cash equivalents	\$ 43	\$ 44
Accounts receivable, net of progress payments of \$3,049 in 1997 and \$2,721 in 1996	1,448	1,356
Inventoried costs, net of progress payments of \$546 in 1997 and \$533 in 1996	1,172	1,053
Deferred income taxes	76	77
Prepaid expenses	55	67
Total current assets	2,794	2,597
Property, plant and equipment	3,174	3,154
Accumulated depreciation	(1,777)	(1,752)
	1,397	1,402
Goodwill, net of accumulated amortization of \$167 in 1997 and \$144 in 1996	3,456	3,436
Other purchased intangibles, net of accumulated amortization of \$139 in 1997 and \$116 in 1996	965	988
Deferred income taxes	484	520
Prepaid pension cost, intangible pension asset and benefit trust funds	286	229
Investments in and advances to affiliates and sundry assets	196	250
	5,387	5,423
	\$ 9,578	\$ 9,422

## Northrop Grumman Corporation and Subsidiaries

Dollars in millions	March 31, 1997	December 31, 1996
<b>Liabilities and Shareholders' Equity</b>		
Notes payable to banks	\$ 271	\$ 228
Current portion of long-term debt	200	200
Trade accounts payable	437	452
Accrued employees' compensation	330	315
Advances on contracts	236	230
Income taxes payable, including deferred income taxes of \$559 in 1997 and \$629 in 1996	623	654
Other current liabilities	546	521
Total current liabilities	2,643	2,600
Long-term debt	2,907	2,950
Accrued retiree benefits	1,722	1,624
Other long-term liabilities	58	59
Deferred income taxes	64	61
<b>Paid-in capital</b>		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding: 1997 -- 58,010,230; 1996 -- 57,928,466	788	784
Retained earnings	1,400	1,348
Unfunded pension losses, net of taxes	(4)	(4)
	2,184	2,128
	\$ 9,578	\$ 9,422

## Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS  
OF CASH FLOWS

Dollars in millions	Three months ended March 31,	
	1997	1996
<b>Operating Activities</b>		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 568	\$ 455
Other collections	1,342	1,215
Income tax refunds received		5
Cash provided by operating activities	1,910	1,675
Uses of Cash		
Cash paid to suppliers and employees	1,842	1,419
Interest paid	30	19
Income taxes paid	5	7
Cash used in operating activities	1,877	1,445
Net cash provided by operating activities	33	230
<b>Investing Activities</b>		
Payment for purchase of Westinghouse		
ESG, net of cash acquired		(2,904)
Capital expenditures	(35)	(41)
Proceeds from sale of property, plant and equipment	1	5
Other investing activities	20	14
Net cash used in investing activities	(14)	(2,926)
<b>Financing Activities</b>		
Borrowings under lines of credit	50	1,973
Proceeds from issuance of long-term debt		1,000
Principal payments of long-term debt	(50)	(140)
Proceeds from issuance of stock	3	4
Dividends paid	(23)	(19)
Other financing activities		(61)
Net cash provided by(used in) financing activities	(20)	2,757
Increase(decrease) in cash and cash equivalents	(1)	61
Cash and cash equivalents balance at beginning of period	44	18
Cash and cash equivalents balance at end of period	\$ 43	\$ 79

## Northrop Grumman Corporation and Subsidiaries

Dollars in millions	Three months ended March 31,	
	1997	1996
<b>Reconciliation of Net Income to Net Cash</b>		
Provided by Operating Activities		
Net income	\$ 75	\$ 61
Adjustments to reconcile net income to net cash provided		
Depreciation	47	47
Amortization of intangible assets	46	24
Common stock issued to employees	1	
Loss(gain) on disposals of property, plant and equipment	(1)	
Retiree benefits cost(income)	(11)	3
Decrease(increase) in		
Accounts receivable	(223)	137
Inventoried costs	(96)	(74)
Prepaid expenses	12	4
Increase(decrease) in		
Progress payments	166	(87)
Accounts payable and accruals	(15)	94
Provisions for contract losses	25	(6)
Income taxes	52	46
Retiree benefits	(47)	(27)
Other transactions	2	8
Net cash provided by operating activities	\$ 33	\$ 230
<b>Noncash Investing and Financing Activities</b>		
Purchase of Westinghouse ESG		
Fair value of assets acquired		\$ 3,969

Cash paid	(2,909)
Liabilities assumed	\$ 1,060

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Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS  
OF CHANGES IN SHAREHOLDERS' EQUITY

Dollars in millions	Three months ended March 31,	
	1997	1996
Paid-in Capital		
At beginning of year	\$ 784	\$ 272
Employee stock awards and options exercised, net of forfeitures	4	4
	788	276
Retained Earnings		
At beginning of year	1,348	1,199
Net income	75	61
Cash dividends	(23)	(19)
	1,400	1,241
Unfunded Pension Losses, Net of Taxes	(4)	(12)
Total shareholders' equity	\$ 2,184	\$ 1,505

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Northrop Grumman Corporation and Subsidiaries

SELECTED INDUSTRY SEGMENT INFORMATION

Dollars in millions	Three months ended March 31,	
	1997	1996
Net Sales		
Aircraft	\$ 1,026	\$ 988
Electronics	1,023	692
Intersegment sales	(85)	(77)
	\$ 1,964	\$ 1,603
Operating Profit		
Aircraft	\$ 135	\$ 101
Electronics	90	74
Total operating profit	225	175
Adjustments to reconcile operating profit to operating margin:		
State and local income taxes	(12)	(6)
General corporate expenses	(31)	(30)
Operating margin	\$ 182	\$ 139
Contract Acquisitions		
Aircraft	\$ 665	\$ 739
Electronics	1,272	3,544
Intersegment acquisitions	(95)	(84)
	\$ 1,842	\$ 4,199
Funded Order Backlog		
Aircraft	\$ 6,753	\$ 6,828
Electronics	5,582	5,757
Intersegment backlog	(57)	(42)
	\$12,278	\$12,543

## 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 (all of which were normal recurring accruals) 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 1996 Annual Report.

## Inventoried Costs

The company's inventoried costs consist primarily of work in process related to long-term contracts with customers.

## Earnings Per Share

In February, 1997, Financial Accounting Standards Board Statement 128 - Earnings per Share was issued. This new standard becomes effective for financial statements for periods ending after December 15, 1997. Under the new standard, earnings per share would have been reported as follows:

	Three months ended March 31,	
	1997	1996
Earnings per share	\$1.30	\$1.23
Diluted earnings per share	\$1.28	\$1.21

## Subsequent Events

On May 5, 1997, the company announced that it had entered into a definitive agreement with Logicon, Inc. (Logicon), a leading defense information technology company, to merge Logicon with a wholly owned subsidiary of Northrop Grumman. The merger will be accounted for as a pooling of interests. Stockholders of Logicon will receive, for each share of Logicon common stock, a fraction of a Northrop Grumman share determined by dividing \$52 by the average closing price for Northrop Grumman common stock during a 30-trading day period prior to mailing the merger proxy statement to the Logicon stockholders. In no event will the exchange ratio be more than 0.6919:1 or less than 0.5661:1.

## 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 23 percent higher in the first quarter of 1997 versus the first quarter of 1996. Comparative results for 1996 include only one month of operations of the defense electronics and systems business of Westinghouse, which was acquired March 1, 1996 and is now operated as the Electronics Sensors and Systems Division (ESSD).

Aircraft segment sales increased in the first quarter of 1997 as

compared to last year's first quarter as a result of increased deliveries of Boeing jetliner shipsets and Gulfstream V business jets. These increases were partially offset by decreases on the B-2, F/A-18 and C-17 programs.

Electronics segment sales increased due to the inclusion of ESSD operations for the full quarter of 1997.

Sales by major program/business area and units delivered in the first quarter were:

Dollars in millions	1997	1996
B-2	\$ 365	\$ 432
Surveillance Aircraft	245	257
F/A-18	129	151
Boeing Jetliners	204	103
Airborne Radar	145	55
ECM	103	84
Marine	132	42
C-17	67	71
Space	86	26
Airspace Management	66	32
Data Systems	48	42
All Other	374	308
	\$1,964	\$1,603

Units	1997	1996
747	11	5
F/A-18 C/D	10	13
F/A-18 E/F		2
C-17	2	2
B-2		2
Gulfstream V	5	

Pension income, which is included in operating profit, increased by \$15 million to \$33 million in the first quarter of 1997 as compared with the first quarter of 1996. Substantially all of the pension income is attributable to the aircraft segment.

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Northrop Grumman Corporation and Subsidiaries

The amount and rate of operating margin increased in the aircraft segment in the first quarter of 1997 as compared with the first quarter of 1996. B-2 operating margin benefited from an increased rate of margin recorded on increased sales of spares and other support phases of the program. B-2 operating margin was lower overall due to a lack of deliveries in this year's first quarter as compared to two deliveries in the comparable period of 1996. Aircraft segment operating margin also benefited from a \$3 million reduction in expenditures from ongoing company-sponsored research and development on commercial aerostructures as compared with the first quarter of 1996. The results for the first quarter 1996 included a \$25 million charge related to work the company performed for Fokker N.V., which declared bankruptcy in March 1996.

The amount of electronics segment operating profit increased while the rate on sales declined in the first quarter of 1997 as compared with last year's first quarter. ESSD contributed to the increased amounts of margin; however, the increase in the amortization of goodwill and other purchased intangibles and a change in the business mix reduced the operating margin rate as compared to last year's first quarter. The electronics segment operating margin in the first quarter of 1997 was reduced by a \$13 million pretax charge related to an increase in the cost estimate to complete the work on the Directed Infrared Countermeasures (DIRCM) program.

Other income for the first quarter of 1996 included a \$4 million gain from the early retirement of notes payable which were due in 1999.

Interest expense in this year's first quarter was \$18 million higher than the corresponding period of 1996 following the \$1 billion increase in average debt outstanding between the two years' first quarters. The increase in debt resulted from the new borrowings used to finance the acquisition of ESSD.

The company's effective tax rate was 37.5 percent for the first quarter of 1997 versus 40.2 percent for the comparable period in 1996. The decrease in the rate was caused primarily by an increase in foreign

sales tax credits.

During the quarter, \$33 million of net cash was generated from operations versus \$230 million in last year's first quarter. The decrease is primarily due to the increase in working capital for the Boeing jetliners, E-2C and JSTARS programs to support increased production levels. Cash generated from operating activities is expected to increase in the last half of this year and is expected to be more than sufficient to finance capital expenditures and dividends. 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.

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Northrop Grumman Corporation and Subsidiaries

#### Forward-Looking Information

Certain statements and assumptions in Management's Discussion and Analysis contain or are based on "forward-looking" information (as defined in the Private Securities Litigation and Reform Act of 1995) that involves risk and uncertainties, including statements and assumptions 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.

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Northrop Grumman Corporation and Subsidiaries

## Part II OTHER INFORMATION

### Item 1. Legal Proceedings

#### False Claims Act Litigation

The government has withdrawn its notice of appeal of the unanimous verdict for the company in U.S. ex rel, David Peterson and Jeff Kroll v. Northrop Corporation and the Ninth Circuit Court of Appeals dismissed the action. The case is now closed.

#### Walsh, et al. v. Northrop Grumman Corporation

This matter, which was described in the Annual Report on Form 10-K, should proceed to trial in late 1997 or early 1998.

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Northrop Grumman Corporation and Subsidiaries

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

## (b) Reports on Form 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended March 31, 1997.

## 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: May 6, 1997 by/s/N. F. Gibbs  
Nelson F. Gibbs  
Corporate Vice President and Controller

Date: : May 6, 1997 by/s/James C. Johnson  
James C. Johnson  
Corporate Vice President and Secretary

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Northrop Grumman Corporation and Subsidiaries

EXHIBIT 11  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS  
(in thousands, except per share)

	Three months ended March 31,	
	1997	1996
Primary:		
Average shares outstanding	57,969	49,573
Common stock equivalents	912	1,337
Totals	58,881	50,910
Net income	\$ 75,327	\$ 60,745
Earnings per share(1)	\$ 1.28	\$ 1.19
Fully diluted:		
Average shares outstanding	57,969	49,573
Common stock equivalents	911	1,349
Totals	58,880	50,922
Net income	\$ 75,327	\$ 60,745
Earnings per share(1)	\$ 1.28	\$ 1.19

(1) This calculation was made in compliance with Item 601 of Regulation S-K. Earnings per share presented elsewhere in this report exclude from their calculation shares issuable under employee stock options and rights, since their dilutive effect is less than 3%.



3-MOS

DEC-31-1997

MAR-31-1997

43

0

1,518

70

1,172

2,794

3,174

1,777

9,578

2,643

2,907

0

0

788

1,396

9,578

1,964

1,964

1,782

1,782

(2)

0

64

120

45

75

0

0

0

75

1.30

1.30