

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

For the Quarter Ended

March 31, 2002

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
Number)

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)
Securities Registered pursuant to Section 12(g) of the Act:

None

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

No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 3, 2002

Common stock outstanding
Preferred stock outstanding

112,803,991 shares
3,500,000 shares

Part I.**Financial Information****Item 1:****Financial Statements****CONSOLIDATED CONDENSED STATEMENTS
OF FINANCIAL POSITION**

| <i>\$ in millions</i> | (Unaudited) March 31, 2002 | December 31, 2001 |
|--|----------------------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 115 | \$ 464 |
| Accounts receivable, net of progress payments of \$15,045 in 2002 and \$13,609 in 2001 | 2,877 | 2,735 |
| Inventoried costs, net of progress payments of \$1,022 in 2002 and \$900 in 2001 | 1,225 | 1,226 |
| Deferred income taxes | 49 | 36 |
| Prepaid expenses and other current assets | 172 | 128 |
| Total current assets | 4,438 | 4,589 |
| Property, plant and equipment | 4,182 | 3,940 |
| Accumulated depreciation | (1,241) | (1,173) |
| Net property, plant and equipment | 2,941 | 2,767 |
| Goodwill, net of accumulated amortization of \$774 in 2002 and 2001 | 8,920 | 8,668 |
| Other purchased intangibles, net of accumulated amortization of \$661 in 2002 and \$606 in 2001 | 1,578 | 1,139 |
| Prepaid retiree benefits cost and intangible pension asset | 3,125 | 3,075 |
| Benefit trust funds | 277 | 433 |
| Miscellaneous other assets, including deferred income taxes of \$5 in 2002 and \$2 in 2001 | 178 | 179 |
| Total other assets | 14,078 | 13,494 |
| Total Assets | \$ 21,457 | \$ 20,850 |

\$ in millions

| | (Unaudited) March 31, 2002 | December 31, 2001 |
|--|----------------------------------|----------------------|
| Liabilities and Shareholders' Equity: | | |
| Notes payable to banks | \$ 44 | \$ 38 |
| Current portion of long-term debt | 5 | 420 |
| Trade accounts payable | 833 | 1,019 |
| Accrued employees' compensation | 675 | 847 |
| Advances on contracts | 525 | 656 |
| Contract loss provisions | 869 | 843 |
| Income taxes payable | 397 | 137 |
| Deferred income taxes | 304 | 344 |
| Other current liabilities | 989 | 828 |
| Total current liabilities | 4,641 | 5,132 |
| Long-term debt | 5,436 | 5,039 |
| Accrued retiree benefits | 2,294 | 1,931 |
| Deferred income taxes | 684 | 669 |
| Other long-term liabilities | 182 | 216 |
| Minority interest | 16 | 122 |
| Mandatorily redeemable preferred stock | 350 | 350 |
| Paid-in capital | | |
| Preferred stock, 10,000,000 shares authorized; 3,500,000 shares issued and outstanding, reported above | | |
| Common stock, 400,000,000 shares authorized; issued and outstanding: 2002—112,686,558; 2001—108,556,081 | 4,813 | 4,451 |
| Retained earnings | 3,109 | 3,011 |
| Unearned compensation | (15) | (18) |
| Accumulated other comprehensive loss | (53) | (53) |
| Total shareholders' equity | 7,854 | 7,391 |
| Total Liabilities and Shareholders' Equity | \$ 21,457 | \$ 20,850 |

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

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

| | Three months ended March 31, | |
|---|------------------------------|----------|
| | 2002 | 2001 |
| <i>\$ in millions, except per share</i> | | |
| Product sales and service revenues | \$ 4,086 | \$ 1,986 |
| Cost of product sales and service revenues | | |
| Operating costs | 3,386 | 1,548 |
| Administrative and general expenses | 387 | 248 |
| Operating margin | 313 | 190 |
| Interest expense | (109) | (47) |
| Other, net | 12 | 17 |
| Income before income taxes | 216 | 160 |
| Federal and foreign income taxes | 67 | 57 |
| Net income | \$ 149 | \$ 103 |
| Weighted average common shares outstanding, in millions | 111.28 | 72.19 |
| Basic earnings per common share | \$ 1.29 | \$ 1.43 |
| Diluted earnings per common share | \$ 1.27 | \$ 1.42 |
| Dividends per common share | \$.40 | \$.40 |
| Dividends per mandatorily redeemable preferred share | \$ 1.75 | |

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

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**

(Unaudited)

| <i>\$ in millions</i> | Three months ended March 31, | |
|--|------------------------------|-----------------|
| | 2002 | 2001 |
| <i>Paid-in Capital</i> | | |
| At beginning of year | \$ 4,451 | \$ 1,200 |
| Stock issued in purchase of business | 306 | |
| Employee stock awards and options exercised | 56 | 14 |
| | 4,813 | 1,214 |
| <i>Retained Earnings</i> | | |
| At beginning of year | 3,011 | 2,742 |
| Net income | 149 | 103 |
| Cash dividends | (51) | (28) |
| | 3,109 | 2,817 |
| <i>Unearned Compensation</i> | | |
| At beginning of year | (18) | |
| Amortization of unearned compensation | 3 | |
| | (15) | |
| <i>Accumulated Other Comprehensive Loss</i> | | |
| At beginning of year | (53) | (23) |
| Change in cumulative translation adjustment | | (1) |
| | (53) | (24) |
| Total shareholders' equity | \$ 7,854 | \$ 4,007 |

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

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| <i>\$ in millions</i> | Three months ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2002 | 2001 |
| Operating Activities | | |
| Sources of Cash | | |
| Cash received from customers | | |
| Progress payments | \$ 269 | \$ 383 |
| Other collections | 3,734 | 1,687 |
| Interest received | 2 | 9 |
| Income tax refunds received | 41 | |
| Other cash receipts | 12 | 1 |
| Cash provided by operating activities | 4,058 | 2,080 |
| Uses of Cash | | |
| Cash paid to suppliers and employees | 3,994 | 2,048 |
| Interest paid | 130 | 41 |
| Income taxes paid | 31 | 24 |
| Other cash payments | 2 | |
| Cash used in operating activities | 4,157 | 2,113 |
| Net cash used in operating activities | (99) | (33) |
| Investing Activities | | |
| Payment for business purchased, net of cash acquired | (161) | |
| Additions to property, plant and equipment | (72) | (43) |
| Proceeds from sale of property, plant and equipment | 2 | |
| Other investing activities | (3) | |
| Net cash used in investing activities | (234) | (43) |
| Financing Activities | | |
| Proceeds from issuance of long-term debt | | 1,491 |
| Borrowings under line of credit | 405 | |
| Principal payments of long-term debt/capital leases | (421) | (10) |
| Proceeds from issuance of stock | 51 | 4 |
| Dividends paid | (51) | (28) |
| Other financing activities | | (64) |
| Net cash (used in)provided by financing activities | (16) | 1,393 |
| (Decrease)increase in cash and cash equivalents | (349) | 1,317 |
| Cash and cash equivalents balance at beginning of period | 464 | 319 |
| Cash and cash equivalents balance at end of period | \$ 115 | \$ 1,636 |

Reconciliation of Net Income to Net Cash**Used in Operating Activities:**

| | | | | |
|--|----|---------|----|-------|
| Net income | \$ | 149 | \$ | 103 |
| Adjustments to reconcile net income to net cash used | | | | |
| Depreciation | | 85 | | 42 |
| Amortization of intangible assets | | 55 | | 57 |
| Common stock issued to employees | | (2) | | 5 |
| Loss on disposals of property, plant and equipment | | 15 | | 2 |
| Retiree benefits expense(income) | | 10 | | (53) |
| Increase in | | | | |
| Accounts receivable | | (1,321) | | (275) |
| Inventoried costs | | (167) | | (188) |
| Prepaid expenses and other current assets | | (42) | | (23) |
| Increase (decrease) in | | | | |
| Progress payments | | 1,368 | | 386 |
| Accounts payable and accruals | | (267) | | (122) |
| Provisions for contract losses | | (29) | | 1 |
| Deferred income taxes | | (175) | | 51 |
| Income taxes payable | | 257 | | (8) |
| Retiree benefits | | (51) | | (18) |
| Other noncash transactions | | 16 | | 7 |
| Net cash used in operating activities | \$ | (99) | \$ | (33) |

Noncash Investing and Financing Activities:

| | | | | |
|-------------------------------|----|-------|--|--|
| Purchase of business | | | | |
| Fair value of assets acquired | \$ | 722 | | |
| Cash paid | | (161) | | |
| Common stock issued | | (306) | | |
| Liabilities assumed | \$ | 255 | | |

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

SELECTED INDUSTRY SEGMENT INFORMATION

(Unaudited)

| <i>\$ in millions</i> | Three months ended March 31, | |
|---|-------------------------------------|------------------|
| | 2002 | 2001 |
| Net Sales | | |
| Electronic Systems | \$ 1,238 | \$ 701 |
| Ships | 1,077 | |
| Information Technology | 929 | 589 |
| Integrated Systems | 807 | 733 |
| Component Technologies | 125 | |
| Intersegment eliminations | (90) | (37) |
| Total Net Sales | \$ 4,086 | \$ 1,986 |
| Operating Margin (Loss) | | |
| Electronic Systems | \$ 99 | \$ 36 |
| Ships | 79 | |
| Information Technology | 50 | 24 |
| Integrated Systems | 93 | 80 |
| Component Technologies | (4) | |
| Total segment operating margin | 317 | 140 |
| Adjustments to reconcile to total operating margin: | | |
| Royalty income reclassification | (6) | |
| Unallocated corporate expenses | (20) | (9) |
| Unallocated state tax provision | (2) | (10) |
| Pension income | 24 | 69 |
| Total Operating Margin | \$ 313 | \$ 190 |
| Contract Acquisitions | | |
| Electronic Systems | \$ 1,470 | \$ 987 |
| Ships | 1,847 | |
| Information Technology | 1,073 | 636 |
| Integrated Systems | 1,310 | 615 |
| Component Technologies | 129 | |
| Intersegment eliminations | (53) | (38) |
| Total Contract Acquisitions | \$ 5,776 | \$ 2,200 |
| Funded Order Backlog | | |
| Electronic Systems | \$ 6,263 | \$ 5,265 |
| Ships | 10,542 | |
| Information Technology | 1,580 | 990 |
| Integrated Systems | 4,026 | 4,173 |
| Component Technologies | 222 | |
| Intersegment eliminations | (212) | (108) |
| Total Funded Order Backlog | \$ 22,421 | \$ 10,320 |

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

The unaudited consolidated condensed financial statements include the accounts of Northrop Grumman Corporation (the company) and its subsidiaries. All material intercompany accounts, transactions and profits are eliminated in consolidation. See the "Acquisitions" and "Proposed Acquisition" footnotes contained herein for additional information.

The accompanying unaudited consolidated condensed financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the Notes and Independent Auditors' Report contained in the company's 2001 Annual Report.

Financial Statement Reclassification

Certain prior year amounts have been reclassified to conform to the 2002 presentation.

Earnings per Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Net income available to common shareholders is calculated by reducing net income by the amount of dividends accrued on mandatorily redeemable preferred stock. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans. Shares issuable pursuant to equity security units and mandatorily redeemable preferred stock have not been included in the diluted earnings per share calculation because their effect is currently anti-dilutive.

Basic and diluted earnings per share are calculated as follows:

| <i>\$ in millions, except per share</i> | Three months ended March 31, | |
|--|-------------------------------------|----------------|
| | 2002 | 2001 |
| Basic Earnings per Share | | |
| Net income | \$ 149 | \$ 103 |
| Less preferred dividends | (6) | |
| Income available to common shareholders | \$ 143 | \$ 103 |
| Weighted-average common shares outstanding, in millions | 111.28 | 72.19 |
| Basic earnings per share | \$ 1.29 | \$ 1.43 |
| Diluted Earnings per Share | | |
| Net income | \$ 149 | \$ 103 |
| Less preferred dividends | (6) | |
| Income available to common shareholders | \$ 143 | \$ 103 |
| Weighted-average common shares outstanding | 111.28 | 72.19 |
| Dilutive effect of stock options and awards | 1.48 | .57 |
| Weighted-average diluted shares outstanding, in millions | 112.76 | 72.76 |
| Diluted earnings per share | \$ 1.27 | \$ 1.42 |

Goodwill and Other Purchased Intangible Assets

Effective January 1, 2002, the company adopted Statement of Financial Accounting Standards (SFAS) No. 142 – *Goodwill and Other Intangible Assets*, which changes the accounting for goodwill from an amortization method to an impairment-only approach. Impairment tests are required as of the company-determined measurement date and at the same time in subsequent years. In accordance with the statement, amortization of goodwill, including goodwill recorded in past business combinations, ceased December 31, 2001. The company has begun the required initial test for potential impairment of goodwill recorded at January 1, 2002, which will be completed by June 30, 2002. If applicable, the required second step of the impairment test, used to measure the amount of impairment loss, will be completed no later than December 31, 2002.

Goodwill and other purchased intangibles balances are included in the identifiable assets of the industry segment to which they have been assigned and amortization of purchased intangibles is charged against the respective industry segment operating margin. The recoverability of purchased intangibles is evaluated at least annually considering the projected future profitability and cash flow of the operations to which they relate. When it is determined that an impairment has occurred, an appropriate charge to operations is recorded.

In 2001, goodwill and other purchased intangible assets were amortized on a straight-line basis over weighted average periods of 35 years and 14 years, respectively, with the exception of approximately \$1.9 billion of goodwill resulting from the fourth quarter 2001 acquisitions of Newport News Shipbuilding Inc. (Newport News) and the Electronics and Information Systems Group of Aerojet-General Corporation (EIS), which was not amortized pursuant to the transitional guidance of SFAS No. 142.

The changes in the carrying amount of goodwill for the quarter ended March 31, 2002, are as follows:

| <i>\$ in millions</i> | Electronic Systems | Ships | Information Technology | Integrated Systems | Component Technologies | Total |
|---|--------------------|----------|------------------------|--------------------|------------------------|----------|
| Balance as of January 1, 2002 | \$ 2,590 | \$ 3,308 | \$ 1,109 | \$ 938 | \$ 723 | \$ 8,668 |
| Goodwill acquired during the period | | 322 | | | | 322 |
| Fair value adjustments to net assets acquired | 11 | (95) | 8 | | 6 | (70) |
| Balance as of March 31, 2002 | \$ 2,601 | \$ 3,535 | \$ 1,117 | \$ 938 | \$ 729 | \$ 8,920 |

In connection with the Newport News acquisition the company assigned \$655 million of the purchase price to purchased intangible assets in the Ships segment. This balance is being amortized on a straight-line basis over a weighted average period of 11 years. The valuation of the purchased intangible assets related to the Newport News acquisition, as well as the estimated useful lives, is based on preliminary estimates and is subject to change upon completion of the company's fair market value and accounting conformance evaluation process. See the "Acquisitions" footnote contained herein for additional information.

The table below summarizes the company's aggregate purchased intangible assets as of March 31, 2002.

| <i>\$ in millions</i> | Gross Carrying Amount | Accumulated Amortization |
|----------------------------------|-----------------------|--------------------------|
| Contract and program intangibles | \$ 2,102 | \$ (603) |
| Other purchased intangibles | 137 | (58) |
| Total | \$ 2,239 | \$ (661) |

All of the company's purchased intangible assets are subject to amortization, and are being amortized on a straight-line basis over an aggregate weighted average period of 12 years. Aggregate amortization expense for

the quarter ended March 31, 2002, was \$55 million. The table below shows expected amortization for the next five years.

\$ in millions

| Year Ended December 31 | | |
|------------------------|------|--------|
| | 2002 | \$ 215 |
| | 2003 | 215 |
| | 2004 | 214 |
| | 2005 | 199 |
| | 2006 | 136 |

The table below shows reported and adjusted segment operating margin, total operating margin, net income and earnings per share for the first quarter of 2001, reflecting the adoption of SFAS No. 142.

| | Three months ended March 31, | |
|--|------------------------------|----------------|
| | 2002 | 2001 |
| <i>\$ in millions</i> | | |
| Operating Margin(Loss) | | |
| Electronic Systems—as reported | \$ 99 | \$ 36 |
| Add back goodwill amortization | | 17 |
| Electronic Systems – adjusted | <u>99</u> | <u>53</u> |
| Ships | 79 | |
| Information Technology—as reported | 50 | 24 |
| Add back goodwill amortization | | 10 |
| Information Technology—adjusted | <u>50</u> | <u>34</u> |
| Integrated Systems—as reported | 93 | 80 |
| Add back goodwill amortization | | 8 |
| Integrated Systems—adjusted | <u>93</u> | <u>88</u> |
| Component Technologies | <u>(4)</u> | |
| Segment Operating Margin—as reported | 317 | 140 |
| Add back goodwill amortization | | 35 |
| Segment Operating Margin—adjusted | <u>\$ 317</u> | <u>\$ 175</u> |
| Total Operating Margin—as reported | \$ 313 | \$ 190 |
| Add back goodwill amortization | | 35 |
| Total Operating Margin—adjusted | <u>\$ 313</u> | <u>\$ 225</u> |
| Net Income | | |
| As reported | \$ 149 | \$ 103 |
| Add back goodwill amortization, net of tax | | 29 |
| Adjusted | <u>\$ 149</u> | <u>\$ 132</u> |
| Basic Earnings Per Share | | |
| As reported | \$ 1.29 | \$ 1.43 |
| Add back goodwill amortization, net of tax | | .39 |
| Adjusted | <u>\$ 1.29</u> | <u>\$ 1.82</u> |
| Diluted Earnings Per Share | | |
| As reported | \$ 1.27 | \$ 1.42 |
| Add back goodwill amortization, net of tax | | .39 |

Adjusted

\$ 1.27

\$ 1.81

Acquisitions

In 2001, the company purchased Litton Industries, Inc. (Litton), EIS and 80.7 percent of Newport News. On January 18, 2002, the company completed the acquisition of the remaining shares of Newport News and now owns 100 percent of Newport News. Newport News is the nation's sole designer, builder and refueler of nuclear-powered aircraft carriers and one of only two domestic companies capable of designing and building nuclear-powered submarines. To complete the acquisition, the company issued an additional 3.2 million shares of its common stock and paid cash for the balance of the Newport News shares. In total, the company issued 16.6 million shares of its common stock in relation to the acquisition of Newport News. These shares were valued at \$95.22 per share for purchase accounting purposes. In accordance with generally accepted accounting principles, this value was determined based on the average closing stock price of the company's common stock from December 3, 2001, through December 7, 2001. Following the completion of the acquisition, the company eliminated the 19.3 percent minority interest from its financial statements.

The Litton, Newport News and EIS acquisitions are 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 recorded as goodwill. As of March 31, 2002, the company has completed the fair market value and accounting conformance evaluation process for the Litton acquisition and all related adjustments have been reflected in these financial statements. These financial statements reflect preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of purchase price and preliminary estimates of adjustments necessary to conform Newport News and EIS to the company's accounting policies. The company is currently reviewing the preliminary estimates of the fair market value of assets acquired and liabilities assumed, including valuations associated with certain contracts, purchased intangible assets and property, plant and equipment as well as preliminary valuation study results for retiree benefits assets and liabilities. 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 included in these financial statements. Adjustments to the purchase price allocations are expected to be finalized by June 30, 2002, and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

In 2001, the company accrued \$114 million in restructuring costs related to the acquisition of Litton. These costs included \$29 million to exit a business, \$29 million to close down redundant facilities and \$56 million to terminate and relocate employees. In the first quarter of 2002, the company accrued an additional \$13 million of costs to close down redundant facilities in relation to this acquisition. All restructuring costs accrued as of March 31, 2002, were accounted for as purchase accounting adjustments to the opening balance sheet of Litton. For the quarter ended March 31, 2002, the company utilized \$13 million of the balance sheet accruals. At March 31, 2002, \$89 million of the purchase accounting accruals remained in other current liabilities. The company expects to complete its restructuring activities no later than the fourth quarter of 2002.

The following unaudited pro forma condensed financial data for the quarter ended March 31, 2001, is based upon the historical financial statements of the company, Litton and Newport News adjusted to give effect to the Litton acquisition and the Newport News acquisition as if they occurred on January 1, 2001. The pro forma statements have been developed from (a) the unaudited consolidated financial statements of the company contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, (b) the unaudited consolidated financial statements of Litton contained in its Quarterly Report on Form 10-Q for the period ended January 31, 2001, and (c) the unaudited consolidated financial statements of Newport News contained in its

Quarterly Report on Form 10-Q for the quarter ended March 18, 2001. EIS is not included in the following unaudited pro forma condensed financial data as its inclusion would not have a material effect on the reported amounts.

| <i>\$ in millions, except per share</i> | Three months ended March 31, (Actual) 2002 | (Pro-Forma) 2001 |
|---|--|---------------------|
| Net sales | 4,086 | \$ 3,797 |
| Net income | 149 | 152 |
| Basic earnings per share | 1.29 | 1.43 |
| Diluted earnings per share | 1.27 | 1.42 |

Proposed Acquisition

On February 22, 2002, the company forwarded a proposal to TRW's board of directors to enter into negotiations to combine the two companies. The terms of the exchange offer are as set forth in the tender offer statement on Schedule TO and the prospectus filed as part of Form S-4 on March 4, 2002, as amended by the company from time to time. There can be no assurance that such a transaction will be completed or, if completed, on what terms. If a transaction were completed in which the company acquired TRW's automotive business, promptly following the close of the transaction, the company would expect to separate TRW's automotive business either by selling the business to one or more third parties or by spinning it off to Northrop Grumman shareholders. There currently is no agreement with respect to the sale of the automotive business and there can be no assurance that a sale will be consummated or what the terms of such sale will be. The company has incurred transaction costs of approximately \$20 million through April 4, 2002, that include investment banking, filing, printing, proxy solicitation and legal fees in support of the offer. In the event that the offer is successful these costs will be capitalized as part of the purchase price. If the offer is not successful, these costs will be expensed as corporate expenses.

New Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*, that resolves implementation issues experienced under the previous standard and broadens the reporting of discontinued operations. The company adopted this statement on January 1, 2002. Adoption of this statement did not have a significant effect on the company's financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations* that addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company adopted this statement on January 1, 2002. Adoption of this statement did not have a significant effect on the company's financial position, results of operations or cash flows.

Commitments and Contingencies

As previously reported in the company's 2001 annual report, on March 13, 2002, a jury in Indianapolis, Indiana returned a verdict of approximately \$31 million in favor of Allison Gas Turbine for cost overruns on the engine exhaust liner and trailing edge of a discontinued prototype aircraft from a competitive award process which occurred in the 1980s. On May 3, 2002, the approximate sum of \$37 million of pre-judgment interest was awarded in this matter. The company expects to obtain substantial relief from the current adverse judgment in the case by an appeal, based upon substantive and procedural legal grounds. The company believes that the jury's award in the trial was not warranted by the law applicable to the case and should be overturned. It is not possible at this time to predict the result of the appeal.

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

The 2002 first quarter results include the operations of Litton Industries, Inc. (Litton), acquired in the second quarter of 2001, and Newport News Shipbuilding Inc. (Newport News) and the Electronics and Information Systems Group of Aerojet-General Corporation (EIS), both acquired in the fourth quarter of 2001. These acquisitions are important components of the increases in sales, operating margin and net income for the 2002 first quarter compared with the first quarter of 2001.

Effective January 1, 2002, the company adopted SFAS No. 142 – *Goodwill and Other Intangible Assets*, implemented required disclosure provisions, and eliminated the amortization of goodwill. In order to report on a comparable basis, first quarter 2001 operating results discussed herein have been adjusted to exclude goodwill amortization. First quarter 2001 operating margin is adjusted by \$35 million from \$190 million to \$225 million, net income is adjusted by \$29 million from \$103 million to \$132 million and diluted earnings per share is adjusted by \$.39 from \$1.42 to \$1.81. The company is evaluating and analyzing other provisions of SFAS No. 142 and expects to complete these reviews during 2002. For additional information see the "Goodwill and Other Purchased Intangible Assets" footnote to the consolidated condensed financial statements contained in this report on Form 10-Q. First quarter 2002 operating margins by segment as compared to adjusted operating margins by segment for the first quarter of 2001 is included below:

Segment Operating Margins

| <i>\$ in millions</i> | Three months ended March 31, | |
|------------------------|------------------------------|-------|
| | 2002 | 2001 |
| Electronic Systems | \$ 99 | \$ 53 |
| Ships | 79 | |
| Information Technology | 50 | 34 |
| Integrated Systems | 93 | 88 |
| Component Technologies | (4) | |

Effective January 1, 2002, segment operating margin includes royalty income. In the Consolidated Condensed Statements of Income, royalty income continues to be reported as Other Income. Prior year segment data has been restated.

Sales for the first quarter more than doubled to \$4.1 billion from \$2.0 billion reported for the first quarter of 2001.

Sales by business area in the first quarter were:

| \$ in millions | Three months ended March 31, | |
|--|------------------------------|-----------------|
| | 2002 | 2001* |
| Electronic Systems | | |
| Aerospace Electronic Systems | \$ 310 | \$ 263 |
| C ⁴ ISR&N | 286 | 200 |
| Defensive Electronic Systems | 205 | 83 |
| Navigation Systems | 177 | |
| Space Systems | 116 | 62 |
| Other | 144 | 93 |
| | 1,238 | 701 |
| Ships | | |
| Aircraft Carriers | 473 | |
| Surface Combatants | 189 | |
| Amphibious and Auxiliary | 161 | |
| Submarines | 130 | |
| Commercial and International | 70 | |
| Services and Other | 73 | |
| Intrasegment Eliminations | (19) | |
| | 1,077 | |
| Information Technology | | |
| Government Information Technology | 580 | 267 |
| Technology Services | 152 | 127 |
| Enterprise Information Technology | 138 | 141 |
| Commercial Information Technology | 59 | 54 |
| | 929 | 589 |
| Integrated Systems | | |
| Air Combat Systems | 485 | 406 |
| Airborne Early Warning/Electronic Warfare | 168 | 166 |
| Airborne Ground Surveillance/Battle Management | 152 | 165 |
| Intrasegment Eliminations | 2 | (4) |
| | 807 | 733 |
| Component Technologies | | |
| | 125 | |
| Intersegment eliminations | (90) | (37) |
| Total sales | \$ 4,086 | \$ 1,986 |

*Certain prior year amounts have been reclassified to conform to the 2002 presentation.

Sales at Electronic Systems in the 2002 first quarter increased 77 percent to \$1.2 billion from \$701 million for the same period of 2001. Operating margin for the quarter was \$99 million compared to 2001 first quarter adjusted operating margin of \$53 million. Favorable results in the sector for sales and operating margin reflect the impact of the Litton acquisition in the Aerospace Electronic Systems, C⁴ISR&N, Defensive Electronic Systems and Navigation Systems business areas, as well as the EIS acquisition included in the Space Systems business area. Results also incorporate increased sales in the Aerospace Electronic Systems business area from the F-16 Block 60 program, increased volume in Defensive Electronic Systems from higher Wedgetail and ALQ-165 sales and strong results from the automation and information element of the business. Electronic Systems operating margin for the 2002 year is currently forecast at approximately 9 percent of sales.

The Ships segment, which includes the financial results of the Newport News and Ship Systems sectors, generated sales of \$1.1 billion and operating margin of \$79 million for the first quarter of 2002. Although Newport News is now operating as a separate sector, the company has aggregated Newport News and Ship Systems results for segment reporting purposes. Presently, Ships 2002 operating margin is expected to be approximately 8 percent of sales.

Information Technology reported sales of \$929 million in the quarter ended March 31, 2002, an increase of 58 percent over the same period a year ago. Operating margin was \$50 million in the quarter, up from an adjusted \$34 million in the first quarter of 2001. Sales and operating margin growth were driven by businesses added in the Litton acquisition. Information Technology sales for 2002 are now expected to be between \$4.2 billion and \$4.4 billion and operating margin as a percentage of sales is expected to be in the high 5 percent range.

Sales for Integrated Systems increased 10 percent to \$807 million for the 2002 first quarter compared with \$733 million for the same period a year ago, reflecting higher B-2 and unmanned vehicle sales. Operating margin for the 2002 first quarter increased 6 percent to \$93 million from an adjusted \$88 million in the comparable year ago period. Integrated Systems sales for 2002 are now expected to be between \$3 billion and \$3.2 billion with operating margin as a percentage of sales in the mid to high 8 percent range.

Component Technologies reported 2002 first quarter sales of \$125 million and an operating loss of \$4 million. Component Technologies' operating margin continued to be adversely impacted by the downturn in the telecommunications industry. Component Technologies continues to generate solid performance in its non-telecommunications business. Component Technologies sales for the year are now expected to be approximately \$620 million with operating margin as a percentage of sales in the low single digits.

Foreign sales for the quarter ended March 31, 2002, totaled approximately \$300 million. Foreign sales by their nature are subject to greater risk than the company's domestic sales, particularly to the U.S. government. These risks are discussed in detail in the company's 2001 Annual Report.

Operating margin included pension income of \$24 million in the first quarter of 2002 down from the \$69 million reported in the first quarter of 2001. Pension income for 2002 is expected to be approximately \$95 million.

Unallocated corporate expenses, which are reflected in operating margin, increased to \$20 million in the first quarter of 2002 from \$9 million in the first quarter of 2001 due to increased costs resulting from 2001 acquisitions and higher mark-to-market adjustments on restricted stock awards.

The decrease in other income in the 2002 quarter compared to the 2001 quarter reflects \$9 million of interest earned on the temporary investment of excess cash in the 2001 period. The 2002 balance includes \$6 million of royalty income.

Interest expense for the first quarter increased to \$109 million from \$47 million reported in the 2001 first quarter as a result of the company's financing activities related to the acquisitions of Litton, Newport News and EIS.

For the 2002 quarter the company's effective tax rate declined to 31.02 percent from 35.63 percent. The decreased rate reflects the elimination of goodwill amortization, most of which is non-deductible, upon adoption of SFAS No. 142.

First quarter 2002 net income was \$149 million, or \$1.27 per share, compared with adjusted net income of \$132 million, or \$1.81 per share, for the same period of 2001. The comparable per share decline reflects a substantial decrease in pension income and increases in interest expense and in the number of shares outstanding. First quarter 2002 diluted earnings per share are based on average diluted shares outstanding of 112.8 million versus 72.8 million for the first quarter of 2001.

Contract acquisitions increased to \$5.8 billion for the first three months of 2002 from \$2.2 billion reported for the same period a year ago. For the first quarter 2002, Electronic Systems reported contract acquisitions of \$1.5 billion reflecting the inclusion of Litton and EIS businesses and higher F-22 funding. Ships reported contract acquisitions of \$1.8 billion resulting from the funding of *Virginia*-class submarines and refueling and overhaul of the carrier *USS Eisenhower*. Information Technology reported contract acquisitions of \$1.1 billion, principally in the Government Information Technology business area. Integrated Systems reported \$1.3 billion in contract acquisitions, reflecting higher F/A-18E/F and unmanned vehicle systems funding. Component Technologies reported \$129 million in contract acquisitions. The company's business backlog at March 31, 2002, was \$22.4 billion, up from \$10.3 billion reported a year earlier.

As previously reported in the company's 2001 annual report, on March 13, 2002, a jury in Indianapolis, Indiana returned a verdict of approximately \$31 million in favor of Allison Gas Turbine for cost overruns on the engine exhaust liner and trailing edge of a discontinued prototype aircraft from a competitive award process which occurred in the 1980s. On May 3, 2002, the approximate sum of \$37 million of pre-judgment interest was awarded in this matter. The company expects to obtain substantial relief from the current adverse judgment in the case by an appeal, based upon substantive and procedural legal grounds. The company believes that the jury's award in the trial was not warranted by the law applicable to the case and should be overturned. It is not possible at this time to predict the result of the appeal.

The company's net debt at March 31, 2002, was \$5.4 billion, up from the \$5.0 billion reported at December 31, 2001, due in part to cash expenditures to complete the Newport News acquisition.

In the first quarter of 2002 the company used cash in operations of \$99 million compared with a use of \$33 million for the same period last year. Working capital increased by approximately \$340 million in the quarter as a result of normal fluctuations in timing of receipts and disbursements, working down advances on contracts, and payments associated with acquired businesses. The company currently expects to generate \$100 million to \$200 million in cash available to pay down debt this year. For the remainder of 2002, cash generated from operations are expected to be sufficient to service debt, finance capital expenditures and continue paying dividends to the company's shareholders. During the first quarter of 2002 the company paid off long-term debt of \$427 million acquired in the Newport News acquisition. The company's liquidity and financial flexibility are expected to be provided by cash flow generated by operating activities, supplemented by the borrowing capacity available under the company's credit facility. Upon completion of the B-2 EMD contract, federal and state income taxes deferred since the inception of the contract in 1981 will become payable. The contract is expected to be completed in the fourth quarter of 2002 with federal taxes of approximately \$1 billion payable in March 2003. The company plans to use cash generated from operations supplemented by additional borrowings under the credit facility and/or additional funds raised from public or private capital markets to pay these taxes.

On February 22, 2002, the company forwarded a proposal to TRW's board of directors to enter into negotiations to combine the two companies. The terms of the exchange offer are as set forth in the tender offer statement on Schedule TO and the prospectus filed as part of Form S-4 on March 4, 2002, as amended by the company from time to time. There can be no assurance that such a transaction will be completed or, if completed, on what terms. If a transaction were completed in which the company acquired TRW's automotive business, promptly following the close of the transaction, the company would expect to separate TRW's automotive business either by selling the business to one or more third parties or by spinning it off to Northrop Grumman shareholders. There currently is no agreement with respect to the sale of the automotive business and there can be no assurance that a sale will be consummated or what the terms of such sale will be. The company has incurred transaction costs of approximately \$20 million through April 30, 2002, that include investment banking, filing, printing, proxy solicitation and legal fees in support of the offer. In the event that the offer is successful these costs will be capitalized as part of the purchase price. If the offer is not successful, these costs will be expensed as corporate expenses.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*, that resolves implementation issues experienced under the previous standard and broadens the reporting of discontinued operations. The company adopted this statement on January 1, 2002. Adoption of this statement did not have a significant effect on the company’s financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations* that addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company adopted this statement on January 1, 2002. Adoption of this statement did not have a significant effect on the company’s financial position, results of operations or cash flows.

Forward-Looking Information

Certain statements and assumptions in Management’s Discussion and Analysis and elsewhere in this quarterly report on Form 10-Q contain or are based on “forward-looking” information (that the company believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risk and uncertainties. Such “forward-looking” information includes statements and assumptions with respect to future revenues, expected program performance and cash flows, the outcome of contingencies including litigation, environmental remediation, the effect of completed and planned acquisitions and divestitures of businesses, and anticipated costs of capital investments. The company’s operations are subject to various risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies. Actual outcomes are dependent upon various 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 issues and the timing of deliveries under existing contracts; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; ability to perform fixed price contracts within planned margins; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes including risk associated with pending litigation and unasserted claims; the ability of the company to integrate acquisitions and to successfully divest noncore businesses; environmental risks and unanticipated remediation costs; risks associated with labor relations; legal, financial, and governmental risks related to international transactions and domestic and global needs for military aircraft, ships, military and civilian electronic systems and support, information technology and electronic components and materials; market risks associated with pension income; risks associated with higher debt levels; and other economic, political risks and uncertainties. Additional information regarding these factors is contained in the company’s other SEC filings, including without limitation, the company’s Annual Report on Form 10-K for the year ended December 31, 2001.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term debt outstanding under the credit facility, short-term investments, and long-term notes receivable. At March 31, 2002, the company had \$400 million of variable rate debt outstanding. Substantially all other borrowings are fixed-rate long-term debt obligations, a significant portion of which are not callable until maturity. The company’s sensitivity to a 1 percent change in interest rates is tied to its \$2.5 billion credit facility, which has a balance outstanding of \$400 million at March 31, 2002. The estimated expense would be 1 percent of any outstanding balance. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At March 31, 2002, no interest rate swap agreements were in effect. The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts

from customers and payments to suppliers denominated in foreign currencies. Foreign currencies are traditionally converted to U.S. dollars upon receipt to limit currency fluctuation exposures. At March 31, 2002, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure relating to foreign currency exchange to be material. The company does not hold or issue derivative financial instruments for trading purposes. Standby letters of credit are used by the company to guarantee future performance on its contracts.

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Los Angeles, California

We have reviewed the accompanying consolidated condensed statements of financial position of Northrop Grumman Corporation and subsidiaries as of March 31, 2002, and the related consolidated condensed statements of income for the three-month periods ended March 31, 2002 and 2001, and the related consolidated condensed statements of changes in shareholders' equity and cash flows. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated condensed financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2001, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 18, 2002, except for the subsequent events footnote, as to which the date is March 18, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2001 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Los Angeles, California
May 8, 2002

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Fanni and related cases

Five shareholder class action lawsuits, Fanni v. Northrop Grumman Corp., et al., Schnee v. Northrop Grumman Corp., et al., Florida State Board of Admin. v. Northrop Grumman Corp., et al., Burroughs v. Northrop Grumman Corp., et al., and Miller, et al. v. Northrop Grumman Corp., et al., making similar allegations, were filed between July and September 1998 in the United States District Court for the Central District of California against the company, its directors and certain of its officers. The District Court consolidated Fanni, Schnee and Florida State Board of Admin. into one action, and Burroughs and Miller into another action. The District Court dismissed the Fanni consolidated actions with prejudice in April 2000, and dismissed the Burroughs consolidated actions with prejudice in October 2000. In December 2001 the Ninth Circuit Court of Appeals affirmed the District Court's Order dismissing Fanni, and on March 19, 2002 affirmed the District Court's Order dismissing Burroughs. These matters are now closed.

General

The company, as a government contractor, is from time to time subject to U.S. Government investigations relating to its operations. Government contractors that are found to have violated the False Claims Act, or are indicted or convicted for violations of other federal laws, or are considered not to be responsible contractors may be suspended or debarred from government contracting for some period of time. Such convictions could also result in fines. Given the company's dependence on government contracting, suspension or debarment could have a material adverse effect on the company.

The company is involved in certain other legal proceedings arising in the ordinary course of business, none of which the company's management believes will have a material adverse effect on the company's financial condition.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*15 Letter from independent accountants regarding unaudited financial information

(b) Reports on Form 8-K

A report on Form 8-K/A was dated and filed January 14, 2002 by Northrop Grumman Corporation reporting pursuant to Item 7 certain required pro forma financial information.

A report on Form 8-K/A, amendment No. 2, was dated and filed February 1, 2002 by Northrop Grumman Corporation reporting pursuant to Item 2 on the acquisition of Newport News Shipbuilding Inc. and incorporating by reference to the company's Registration Statement No. 333-61506, the Newport News Shipbuilding Inc. merger agreement.

*Filed with this Report

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 10, 2002

by /s/ SANDRA J. WRIGHT

Sandra J. Wright
Corporate Vice President and Controller

Date: May 10, 2002

by /s/ J. H. MULLAN

John H. Mullan
Corporate Vice President and Secretary

EXHIBIT (15)

Letter from Independent Accountants Regarding
Unaudited Interim Financial Information

May 8, 2002
Northrop Grumman Corporation
Los Angeles, California

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the period ended March 31, 2002 and of Northrop Grumman Systems Corporation (formerly Northrop Grumman Corporation) and subsidiaries for the period ended March 31, 2001, as indicated in our report dated May 8, 2002; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, is incorporated by reference in Registration Statement Nos. 33-59815, 33-59853, 333-68003, 333-61936 and 333-67266 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290 and 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800 and 333-83762 on Form S-4.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP
Los Angeles, CA