

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, 1995
or

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

For the transition period from _____ to _____

For Quarter Ended June 30, 1995
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

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 21, 1995 49,373,825 shares

Northrop Grumman Corporation and Subsidiaries

Part I. Financial Information

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS
OF INCOME

\$ in millions, except per share	Three months ended		Six months ended	
	1995	June 30 1994	1995	June 30 1994
Net Sales	\$1,759	\$1,686	\$3,376	\$2,904
Cost of sales				
Operating costs	1,360	1,357	2,659	2,378
Administrative and general expenses	232	203	433	319
Operating margin	167	126	284	207
Other, net	(3)	13	2	16
Interest expense	(36)	(33)	(70)	(38)
Income before income taxes	128	106	216	185

Federal and foreign income taxes	49	41	83	68
Net income	\$ 79	\$ 65	\$ 133	\$ 117
Weighted average shares outstanding, in millions	49.3	49.1	49.3	49.1
Earnings per share	\$ 1.59	\$ 1.33	\$ 2.69	\$ 2.39
Dividends per share	\$.40	\$.40	\$.80	\$.80

I-1

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF FINANCIAL POSITION

\$ in millions	June 30 1995	December 31 1994
Assets:		
Cash and cash equivalents	\$ 3	\$ 17
Accounts receivable, net of progress payments of \$2,508 in 1995 and \$2,532 in 1994	1,250	1,202
Inventoried costs, net of progress payments of \$560 in 1995 and \$611 in 1994	978	1,043
Refundable federal income taxes	84	84
Deferred income taxes	36	38
Prepaid expenses	61	47
Total current assets	2,412	2,431
Property, plant and equipment	3,126	3,146
Accumulated depreciation	(1,796)	(1,768)
	1,330	1,378
Goodwill, net of amortization of \$45 in 1995 and \$27 in 1994	1,422	1,359
Other purchased intangibles, net of amortization of \$25 in 1995 and \$15 in 1994	366	376
Prepaid pension cost, intangible pension asset and benefit trust fund	241	222
Deferred income taxes	206	203
Investments in and advances to affiliates and sundry assets	68	78
	2,303	2,238
	\$ 6,045	\$ 6,047

I-2

\$ in millions	June 30 1995	December 31 1994
Liabilities and Shareholders' Equity:		
Notes payable to banks	\$ 150	\$ 171
Current portion of long-term debt	188	130
Trade accounts payable	395	396
Accrued employees' compensation	227	228
Advances on contracts	96	184
Income taxes payable, including deferred income taxes of \$471 in 1995 and \$413 in 1994	489	468
Other current liabilities	350	387
Total current liabilities	1,895	1,964
Long-term debt	1,496	1,633
Accrued retiree benefits	1,195	1,070

Other long-term obligations	53	54
Deferred gain on sale/leaseback	18	20
Deferred income taxes	2	16
Paid-in capital		
Preferred stock, 10,000,000 shares authorized and none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding: 1995 -- 49,368,903; 1994 -- 49,241,642	267	265
Retained earnings	1,120	1,026
Unvested employee restricted award shares	(1)	(1)
	1,386	1,290
	\$ 6,045	\$ 6,047

I-3

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CASH FLOWS

\$ in millions	Six months ended June 30	
	1995	1994
Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 1,254	\$ 1,354
Other collections	2,066	2,365
Income tax refunds received	7	
Other cash receipts	7	11
Cash provided by operating activities	3,334	3,730
Uses of Cash		
Cash paid to suppliers and employees	3,040	3,302
Interest paid	74	30
Income taxes paid	44	44
Other cash payments	3	
Cash used in operating activities	3,161	3,376
Net cash provided by operating activities	173	354
Investing Activities		
Payment for purchase of Grumman Corporation, net of cash acquired		(1,841)
Additions to property, plant and equipment	(71)	(60)
Proceeds from sale of property, plant and equipment	16	4
Proceeds from sale of affiliates	4	
Funding of retiree benefit trust		(30)
Dividends from affiliate		5
Other investing activities	(7)	6
Net cash used in investing activities	(58)	(1,916)
Financing Activities		
Borrowings under lines of credit	150	1,800
Repayment of borrowings under lines of credit	(171)	(200)
Principal payments of long-term debt	(71)	(3)
Proceeds from issuance of stock	2	5
Dividends paid	(39)	(39)
Net cash provided by (used in) financing activities	(129)	1,563
Increase(decrease) in cash and cash equivalents	(14)	1
Cash and cash equivalents balance at beginning of period	17	100
Cash and cash equivalents balance at end of period	\$ 3	\$ 101

I-4

\$ in millions	Six months ended June 30	
	1995	1994
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net income	\$ 133	\$ 117

Adjustments to reconcile net income to net cash provided		
Depreciation	115	105
Amortization of intangible assets	28	13
Loss(gain) on disposals of property, plant and equipment	(3)	8
Noncash retiree benefits	(51)	(25)
Amortization of deferred gain on sale/leaseback	(2)	(1)
Decrease(increase) in		
Accounts receivable	55	676
Inventoried costs	116	(587)
Prepaid expenses	24	(12)
Increase(decrease) in		
Progress payments	(75)	163
Accounts payable and accruals	(108)	(109)
Provisions for contract losses	(117)	(33)
Income taxes	56	44
Other noncash transactions	2	(5)
Net cash provided by operating activities	\$ 173	\$ 354

Noncash Investing and Financing Activities:

Purchase of Grumman Corporation		
Fair value of assets acquired		\$ 3,530
Cash paid		(2,128)
Liabilities assumed		\$ 1,402

I-5

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30	
\$ in millions	1995	1994
Paid-in Capital:		
At beginning of year	\$ 265	\$ 256
Employee stock awards and options exercised, net of forfeitures	2	5
	\$ 267	\$ 261
Retained Earnings:		
At beginning of year	\$1,026	\$1,070
Net income	133	117
Cash dividends	(39)	(39)
	\$1,120	\$1,148
Unvested Employee Restricted Award Shares:		
At beginning of year	\$ (1)	\$ (2)
Amortization		1
	\$ (1)	\$ (1)
Unfunded pension losses, net of taxes	\$	\$ (2)

I-6

Northrop Grumman Corporation and Subsidiaries

SELECTED INDUSTRY SEGMENT INFORMATION

	Three months ended		Six months ended	
	1995	1994	1995	1994
\$ in millions	1995	1994	1995	1994
Net Sales:				
Military and Commercial Aircraft	\$1,164	\$ 1,118	\$ 2,191	\$ 2,092
Electronics and Systems Integration	545	403	1,003	563
Data Systems and Other Services	93	108	231	128
Missiles and Unmanned Vehicle Systems	32	108	93	196
Intersegment sales	(75)	(51)	(142)	(75)
	\$1,759	\$ 1,686	\$ 3,376	\$ 2,904
Operating Profit:				
Military and Commercial Aircraft	\$ 127	\$ 118	\$ 217	\$ 196
Electronics and Systems Integration	47	31	75	47
Data Systems and Other Services	3	3	8	4
Missiles and Unmanned Vehicle Systems	1	3	4	6
Total operating profit	178	155	304	253
Adjustments to reconcile operating profit to operating margin:				
Other income included above	4	(8)		(9)
State and local income taxes	(7)	(12)	(14)	(15)
General corporate expenses	(30)	(33)	(57)	(56)
Retiree benefit cost included in contract costs	42	36	89	41
Retiree benefit cost	(20)	(12)	(38)	(7)
Operating margin	\$ 167	\$ 126	\$ 284	\$ 207
Contract Acquisitions:				
Military and Commercial Aircraft	\$ 552	\$2,619	\$ 651	\$ 5,749
Electronics and Systems Integration	584	1,946	1,537	2,087
Data Systems and Other Services	125	249	207	259
Missiles and Unmanned Vehicle Systems	6	91	(139)	153
Intersegment acquisitions	(72)	(101)	(140)	(137)
	\$1,195	\$4,804	\$ 2,116	\$ 8,111
Funded Order Backlog:				
Military and Commercial Aircraft			\$ 7,649	\$ 9,307
Electronics and Systems Integration			2,969	2,285
Data Systems and Other Services			206	174
Missiles and Unmanned Vehicle Systems			143	484
Intersegment backlog			(54)	(124)
			\$10,913	\$12,126

I-7

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 1994 Annual Report.

Inventories

The company's inventories consist primarily of work in process related to long-term contracts with customers; therefore further breakdown is considered inapplicable.

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

Sales were 4 percent higher in the second quarter of 1995 versus the second quarter of 1994. Sales rose 16 percent in the first six months of 1995 when compared to the first half of 1994. Comparative results do not include operating results of acquired companies prior to acquisition (Grumman Corporation - April 1994 and Vought Aircraft Company (VAC) - August 1994).

Military and commercial aircraft (MCA) segment sales increased in the second quarter and first half of 1995 versus comparable periods of 1994 because of higher revenues on the F/A-18, Boeing jetliners, C-17 military transport aircraft and various other programs associated with the VAC acquisition in 1994. The increases more than offset the lower overall revenue on the B-2 program.

Electronics and systems integration (ESI) segment sales increased in the second quarter and first six months of 1995 as compared to the same periods of 1994 as a result of higher revenues recorded on the E-8 Joint STARS and E-2 Hawkeye programs.

The sales increase in the data systems and other services segment in the first six months of 1995 versus the first half of last year is principally due to the programs acquired in connection with the Grumman Corporation acquisition.

Lower sales in the missiles and unmanned vehicle system segment resulted from the cancellation of the Tri-Service Standoff Attack Missile (TSSAM) program in February 1995.

Sales by major program and units delivered were as shown in the following table:

\$ in millions	Three months		Six months	
	1995	1994	1995	1994
B-2	\$ 518	597	\$ 974	\$1,271
F/A-18 C/D	104	69	166	149
F/A-18 E/F	109	130	228	237
Boeing Jetliners	157	97	297	197
E-2	183	89	243	89
ECM	78	81	153	173
E-8 Joint STARS	139	114	285	114
Data Systems and Other Services	93	108	231	128
TSSAM	16	87	60	154
C-17	72	5	139	5
BAT	18	21	37	42
All Other	272	288	563	345
	\$1,759	\$1,686	\$3,376	\$2,904

Units	Three months		Six months	
	1995	1994	1995	1994
F/A-18 C/D	15	10	23	22
747 Fuselage	7	9	13	18
B-2	1		2	

The amount and rate of operating margin earned on sales during the second quarter and first half of 1995 increased as compared with the same periods in 1994. Operating profit in the MCA segment benefited from a net \$34 million in cumulative operating margin adjustments recorded in the second quarter of 1995. Positive adjustments on the B-2 stealth bomber and C-17 military transport programs were partially offset by a downward adjustment on the Boeing 747 jetliner program. The 747 adjustment reflected cost increases related to the stretch out of the current production contract, which is now scheduled to conclude in the summer of 1996. The B-2 adjustment was made as a result of negotiated contract adjustments and a revised estimate of the overall operating margin expected to be earned on the B-2 production contract. The positive adjustment on the C-17 reflected improved operating performance on this program. This year's first six months also benefited from the delivery of two B-2s, versus none in the first half of 1994, and an increase in F/A-18 C/D deliveries. The MCA results for the first six months of 1995 were impacted by \$8 million of company sponsored research and development expenditures, primarily incurred on commercial aerostructures, and a \$4 million charge in the first quarter as a result of an arbitration ruling related to the F/A-18. The ESI

segment operating profit increased principally as a result of higher sales recorded on the E-8 Joint STARS and E-2 Hawkeye programs.

Other income was lower in the first half of 1995 compared to the same period of last year as the first six months of 1994 included \$10 million of nonrecurring royalty and dividend income.

Interest expense for the second quarter of 1995 was \$3 million higher than the corresponding quarter in 1994. Interest expense for the first six months of 1995 was \$32 million higher than the first half of 1994 following the \$800 million increase in average debt outstanding between the two years' first halves and a slightly higher rate of interest incurred on borrowed funds in 1995.

The company's effective federal income tax rate was 38.4 percent for the first six months of 1995 versus 36.8 percent for the comparable period in 1994. The change in the 1995 rate was caused by an increase in the amount of expenses not deductible for income taxes, primarily the amortization of goodwill which began in the second quarter of 1994 as a result of the acquisition of Grumman Corporation.

During the first half of 1995, \$173 million of cash was generated from operations versus \$354 million in last years first six months and was 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 from operating activities, supplemented by the borrowing capacity available under its \$800 million revolving credit agreement and other short-term credit facilities.

I-10

Part II OTHER INFORMATION

Item 1. Legal Proceedings

Walsh, et al. v. Northrop Grumman Corporation

The Company's Quarterly Report on Form 10-Q for the period ended March 31, 1995 updated the discussion of this matter in the Company's Annual Report on Form 10-K for the year ended December 31, 1994. This litigation is being defended vigorously and the Company does not expect it to have a material adverse effect on the Company's financial condition.

U.S. Government Investigation

On May 3, 1995 federal agents executed search warrants at the Military Aircraft Division facilities in Hawthorne and El Segundo, California. Since that time, the Company has learned that the United States Attorney for the Central District of California is conducting a Grand Jury investigation of the F/A 18 and Targets Programs at the Military Aircraft Division. Although the Government has declined to inform the Company of the details of the investigation, it has confirmed that there are no issues regarding flight safety.

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

(a) Annual Meeting --

The annual meeting of stockholders of stockholders of Northrop Corporation was held on May 17, 1995.

(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
Wallace C. Solberg
Richard J. Stegemeier

The Directors whose term of office continues are:

John T. Chain, Jr.
Jack Edwards
Barbara C. Jordan
Kent Kresa

John E. Robson
William F. Schmied
John Brooks Slaughter
Brent Scowcroft

II-1

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

For Directors	Votes For	Votes Withheld	Shares Abstaining
Jack R. Borsting	43,393,776	687,832	-
Aulana L. Peters	43,099,865	981,743	-
Richard M. Rosenberg	43,330,192	751,416	-
Wallace C. Solberg	43,295,620	785,988	-
Richard J. Stegemeier	43,386,901	694,707	-

	Votes For	Votes Against	Shares Abstaining
Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors	43,555,691	287,794	238,123
Approval of the Northrop Grumman 1995 Stock Option Plan for Non-Employee Directors	36,633,181	6,869,554	578,873
Amendments to the Northrop Grumman 1993 Long-Term Incentive Stock Plan	36,176,646	7,504,734	400,228

There were no Broker Non-Votes with respect to any of the proposals at the 1995 Annual Meeting.

II-2

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11. Statement re Computation of Per Share Earnings
Exhibit 27. Financial Data Schedule

(b) No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended June 30, 1995.

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 28, 1995
by/s/Nelson F. Gibbs
Nelson F. Gibbs
Vice President and Controller

Date: July 28, 1995
by/s/James C. Johnson
James C. Johnson
Vice President and Secretary

Northrop Grumman Corporation and Subsidiaries

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

	Three months ended		Six months ended	
	1995	June 30 1994	1995	June 30 1994
Primary:				
Average shares outstanding	49,350	49,138	49,309	49,094
Common stock equivalents	1,057	649	945	692
Totals	50,407	49,787	50,254	49,786
Net income	\$78,408	\$65,535	\$132,530	\$117,178
Earnings per share(1)	\$ 1.56	\$ 1.32	\$ 2.64	\$ 2.35

Fully diluted:

Average shares outstanding	49,350	49,138	49,309	49,094
Common stock equivalents	1,092	736	1,092	746
Totals	50,442	49,874	50,401	49,840
Net income	\$78,408	\$65,535	\$132,530	\$117,178
Earnings per share(1)	\$ 1.55	\$ 1.31	\$ 2.63	\$ 2.35

(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, since their dilutive effect is less than 3%.

QTR-2
DEC-31-1995
JUN-30-1995

		3
	0	
	1,309	
	59	
	978	
	2,412	
		3,126
	1,796	
	6,045	
1,895		
		1,496
		267
25		
	0	
	1,119	
6,045		
		3,376
	3,376	
		3,092
	3,092	
	(2)	
	0	
	70	
	216	
		83
133		
	0	
	0	
		0
	133	
	2.69	
	2.69	