

NORTHROP GRUMMAN CORP /DE/
Form 8-K/A
June 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(D) of the
Securities Exchange Act of 1934

Date of Report (date of earliest event reported)

APRIL 3, 2001

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

| | | |
|---|--|---|
| DELAWARE (State or other jurisdiction of incorporation or organization) | 1-16411 (Commission File Number) | No. 95-4840775 (I.R.S. Employer Identification Number) |
| 1840 Century Park East, Los Angeles, California 90067 www.northgrum.com (Address of principal executive offices and internet site) | | |

(310) 553-6262

(Registrant's telephone number, including area code)

Northrop Grumman Corporation and Subsidiaries

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(b) Pro Forma Financial Information

In April 2001, Northrop Grumman acquired approximately 97.3% of the outstanding Common Shares of Litton Industries and 58.6% of the preferred stock of Litton. Northrop Grumman subsequently acquired the remaining Common and Preferred Shares of Litton for cash and now owns 100% of the outstanding shares of Litton.

The Unaudited Pro Forma Condensed Combined Financial Statements presented below are derived from the historical consolidated financial statements of each of Northrop Grumman Systems Corporation, Northrop Grumman Corporation and Litton Industries, Inc. The Unaudited Pro Forma Condensed Combined Financial Statements have been prepared using the purchase method of accounting, with Northrop Grumman treated as the acquiror and as if the Litton acquisition had been completed as of the beginning of the periods presented for statements of income purposes and on March 31, 2001 for statement of financial position purposes.

The Unaudited Pro Forma Condensed Combined Financial Statements are based upon the historical financial statements of Northrop Grumman Systems, Northrop Grumman and Litton adjusted to give effect to the Litton acquisition. The pro forma adjustments are described in

the accompanying notes presented on the following pages. The pro forma statements have been developed from (a) the audited consolidated financial statements of Northrop Grumman Systems contained in its Annual Report on Form 10-K/A for the year ended December 31, 2000 and the unaudited consolidated financial statements of Northrop Grumman contained in its Quarterly Report on Form 10-Q for the three months ended March 31, 2001, and (b) the audited consolidated financial statements of Litton contained in its Annual Report on Form 10-K for the fiscal year ended July 31, 2000 and the unaudited consolidated financial statements of Litton contained in its Quarterly Report on Form 10-Q for the period ended January 31, 2001. In addition, the audited consolidated financial statements of Litton contained in its Annual Report on Form 10-K for the fiscal year ended July 31, 2000 and the unaudited consolidated financial statements of Litton contained in its Quarterly Reports on Form 10-Q for the periods ended January 31, 2000 and January 31, 2001 have been used to bring the financial reporting periods of Litton to within 90 days of those of Northrop Grumman Systems and Northrop Grumman.

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Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets and liabilities acquired based on their respective fair market values, with the excess recorded as goodwill. These Unaudited Pro Forma Condensed Combined Financial Statements reflect preliminary estimates of the fair market value of the assets and liabilities acquired and the related allocations of purchase price, and preliminary estimates of adjustments necessary to conform Litton data to Northrop Grumman's accounting policies. The Unaudited Pro Forma Condensed Combined Financial Statements do not include the realization of cost savings from operating efficiencies, synergies or other restructurings resulting from the Litton acquisition, or recognition of liabilities associated with potential restructurings, except for preliminary estimates of costs to consolidate the Litton and Northrop Grumman Corporate Offices. Northrop Grumman is currently reviewing the preliminary estimates of the fair market value of assets and liabilities acquired, including preliminary valuation study results for intangible assets, property, plant and equipment, and retiree benefits assets and liabilities and is evaluating several possible restructuring activities of Litton operations. The final determination of the fair market value of assets and liabilities acquired and final allocation of the purchase price may differ from the amounts assumed in these Unaudited Pro Forma Condensed Combined Financial Statements. Adjustments to the purchase price allocations are expected to be finalized December 31, 2001, and will be reflected in future Northrop Grumman filings. There can be no assurance that such adjustments will not be material.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Northrop Grumman would have been had the Litton acquisition occurred on the date assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Northrop Grumman Systems, Northrop Grumman and Litton.

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**Unaudited Pro Forma Condensed Combined
Statement of Financial Position**

March 31, 2001

(\$ in millions)

| | Northrop Grumman | Litton | Pro Forma | |
|---------------------------|---------------------|--------|----------------|----------|
| | | | Adjustments | Combined |
| <i>Assets:</i> | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 1,636 | \$ 74 | \$ (1,500) (a) | \$ 210 |
| Accounts receivable | 1,493 | 794 | (264) (a) | 2,023 |
| Inventoried costs | 749 | 784 | (184) (a) | 1,349 |
| Deferred income taxes | 22 | 372 | | 394 |
| Prepaid expenses | 66 | 33 | (2) (a) | 97 |

| | | | | | |
|--|-----------|----------|----------|-----|-----------|
| Total current assets | 3,966 | 2,057 | (1,950) | | 4,073 |
| Property, plant and equipment, net | 1,014 | 870 | 258 | (a) | 2,142 |
| Other assets | | | | | |
| Goodwill and other purchased intangibles | 4,380 | 1,230 | 2,748 | (a) | 8,358 |
| Prepaid retiree benefits cost and intangible pension asset | 1,469 | 589 | 356 | (b) | 2,414 |
| Other assets | 356 | 162 | (24) | (a) | 494 |
| | 6,205 | 1,981 | 3,080 | | 11,266 |
| | \$ 11,185 | \$ 4,908 | \$ 1,388 | | \$ 17,481 |

Liabilities and Shareholders' Equity:

Current liabilities

| | | | | |
|---|-------|--------|-----|-----------|
| Notes payable and current portion of long term debt | \$ | \$ 184 | \$ | \$ 184 |
| Accounts payable | 491 | 310 | | 801 |
| Accrued employees' compensation | 325 | 226 | 112 | (a) 663 |
| Advances on contracts | 468 | 204 | | 672 |
| Income taxes | 769 | 62 | | 831 |
| Other current liabilities | 531 | 474 | 28 | (a) 1,033 |
| Total current liabilities | 2,584 | 1,460 | 140 | 4,184 |

| | | | | | |
|--|-----------|----------|----------|-----|-----------|
| Long-term debt | 3,105 | 1,293 | 1,026 | (a) | 5,424 |
| Accrued retiree benefits | 1,108 | 303 | (22) | (b) | 1,389 |
| Deferred tax and other long-term liabilities | 381 | 241 | 372 | (a) | 994 |
| Redeemable Preferred Stock | | | 350 | (a) | 350 |
| Shareholders' equity | | | | | |
| Paid in Capital | 1,214 | 413 | 720 | (a) | 2,347 |
| Retained earnings | 2,817 | 1,254 | (1,254) | (a) | 2,817 |
| Accumulated other comprehensive loss | (24) | (56) | 56 | (a) | (24) |
| | 4,007 | 1,611 | (478) | | 5,140 |
| | \$ 11,185 | \$ 4,908 | \$ 1,388 | | \$ 17,481 |

Unaudited Pro Forma Condensed Combined Statement of Income

Quarter Ended March 31, 2001
(In millions, except per share)

| | Northrop Grumman | Litton | Pro Forma | |
|---|---------------------|----------|-------------|----------|
| | | | Adjustments | Combined |
| Sales and service revenues | \$ 1,986 | \$ 1,345 | \$ (18)(c) | \$ 3,313 |
| Cost of sales | | | | |
| Operating Costs | 1,548 | 1,120 | 6 (c)(d)(e) | 2,674 |
| Administrative and general expenses | 248 | 121 | | 369 |
| Operating margin | 190 | 104 | (24) | 270 |
| Interest expense | (47) | (27) | (47)(f) | (121) |
| Other, net | 17 | 3 | | 20 |
| Income from continuing operations | | | | |
| before income taxes | 160 | 80 | (71) | 169 |
| Federal and foreign income taxes | 57 | 30 | (25)(g) | 62 |
| Income from continuing operations | \$ 103 | \$ 50 | (46) | 107 |
| Less dividends paid | | | | |
| to preferred shareholders | | | (6)(h) | (6) |
| Income available to common shareholders | | | \$ (52) | \$ 101 |
| Average shares basic | 72.19 | | | 85.19 |
| Average shares diluted | 72.76 | | | 86.01 |
| Basic earnings per share: | | | | |
| Continuing operations | \$ 1.43 | | | \$ 1.19 |
| Diluted earnings per share: | | | | |
| Continuing operations | \$ 1.42 | | | \$ 1.17* |

* Calculated by dividing income available to common shareholders by average shares diluted, which is calculated assuming preferred shares are not converted to common shares, resulting in the most dilutive effect.

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Northrop Grumman Corporation and Subsidiaries

**Unaudited Pro Forma Condensed Combined
Statement of Income**

*Year Ended December 31, 2000
(In millions, except per share)*

Northrop

Pro Forma

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| | Grumman | Litton | Adjustments | Combined |
|---|----------|----------|----------------|-----------|
| Sales and service revenues | \$ 7,618 | \$ 5,626 | \$ (61) (c) | \$ 13,183 |
| Cost of sales | | | | |
| Operating Costs | 5,446 | 4,669 | (10) (c)(d)(e) | 10,105 |
| Administrative and general expenses | 1,074 | 491 | | 1,565 |
| Operating margin | 1,098 | 466 | (51) | 1,513 |
| Interest expense | (175) | (105) | (197) (f) | (477) |
| Other, net | 52 | 16 | | 68 |
| Income from continuing operations | | | | |
| before income taxes | 975 | 377 | (248) | 1,104 |
| Federal and foreign income taxes | 350 | 151 | (87) (g) | 414 |
| Income from continuing operations | \$ 625 | \$ 226 | (161) | 690 |
| Less dividends paid | | | | |
| to preferred shareholders | | | (25) (h) | (25) |
| Income available to common shareholders | | | \$ (186) | \$ 665 |
| Average shares basic | 70.58 | | | 83.58 |
| Average shares diluted | 70.88 | | | 87.19 |
| Basic earnings per share: | | | | |
| Continuing operations | \$ 8.86 | | | \$ 7.96 |
| Diluted earnings per share: | | | | |
| Continuing operations | \$ 8.82 | | | \$ 7.91* |

* Calculated by dividing income from continuing operations by average shares diluted, which is calculated assuming preferred shares are converted to common shares, resulting in the most dilutive effect.

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- (a) Adjustments to (i) record issuance of preferred and common stock, (ii) eliminate the equity of Litton, (iii) record the new financing of the Litton acquisition and the additional acquisition related costs, (iv) record refinancing of debt using the new credit facilities and (v) record assignment of the purchase price to assets and liabilities in conformance with Northrop Grumman accounting policies based upon the preliminary estimates of their respective fair values. Northrop Grumman is compiling data to determine the final allocation of the purchase price, a process which is expected to be completed by December 31, 2001.
- (b) Adjustment to record preliminary estimate of additional prepaid pension asset and reduction of postretirement benefit liability. Northrop Grumman is reviewing the actuarial data regarding the pension and retiree benefit plans and based on the results of that review, which is expected to be completed by December 31, 2001, further adjustments may be recorded.
- (c) Adjustment to eliminate intercompany sales and cost of sales transactions between Northrop Grumman and Litton.
- (d) Adjustment to amortize the preliminary estimate of goodwill and other purchased intangible assets arising out of the acquisition of Litton over an estimated weighted average life of 27 years on a straight line basis.
- (e) Adjustment to record revised pension income in conformance with Northrop Grumman actuarial pension assumptions and the restatement to fair value of Litton pension assets and liabilities.
- (f) Adjustment to record interest expense and the amortization of debt issuance costs on new financing for the acquisition of Litton at a weighted average rate of 7.2 and 7.5 percent for the quarter ended March 31, 2001 and the year ended December 31, 2000, respectively.
- (g) Adjustment to record income tax effects on pre-tax pro forma adjustments, using a statutory tax rate of thirty-five percent.
- (h) Adjusted, pro rata, for dividends to preferred shareholders using \$7 per share dividend rate for redeemable preferred stock issued in the acquisition.

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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 hereunto duly authorized.

Northrop Grumman Corporation (Registrant)
formerly NNG, Inc.

Date: June 14, 2001

by /s/ Robert B. Spiker
Robert B. Spiker
Corporate Vice President and Controller

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