

NORTHROP GRUMMAN CORP /DE/
Form 10-Q
July 24, 2013

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

For the Quarterly Period Ended June 30, 2013

or

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

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)

2980 Fairview Park Drive, Falls Church, Virginia 22042

www.northropgrumman.com

(Address of principal executive offices and internet site)

(703) 280-2900

(Registrant's telephone number, including area code)

80-0640649

(I.R.S. Employer

Identification No.)

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 for 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer * (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

As of July 19, 2013, 230,165,167 shares of common stock were outstanding.

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NORTHROP GRUMMAN CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June		Six Months Ended June 30	
	2013	2012	2013	2012
\$ in millions, except per share amounts				
Sales				
Product	\$3,593	\$3,399	\$7,014	\$6,740
Service	2,701	2,875	5,384	5,732
Total sales	6,294	6,274	12,398	12,472
Operating costs and expenses				
Product	2,703	2,604	5,334	5,131
Service	2,203	2,316	4,359	4,630
General and administrative expenses	582	580	1,140	1,141
Operating income	806	774	1,565	1,570
Other (expense) income				
Interest expense	(60	) (52	) (113	) (105
Other, net	(22	) 5	(16	) 18
Earnings before income taxes	724	727	1,436	1,483
Federal and foreign income tax expense	236	247	459	497
Net earnings	\$ 488	\$ 480	\$ 977	\$ 986
Basic earnings per share	\$ 2.09	\$ 1.91	\$ 4.15	\$ 3.91
Weighted-average common shares outstanding, in millions	234.0	250.8	235.2	252.0
Diluted earnings per share	\$ 2.05	\$ 1.88	\$ 4.08	\$ 3.84
Weighted-average diluted shares outstanding, in millions	237.5	254.7	239.2	256.5
Net earnings (from above)	\$ 488	\$ 480	\$ 977	\$ 986
Other comprehensive income				
Change in unamortized benefit plan costs, net of tax	79	54	159	104
Change in cumulative translation adjustment	9	(15	) (7	) (9
Other comprehensive income, net of tax	88	39	152	95
Comprehensive income	\$ 576	\$ 519	\$ 1,129	\$ 1,081

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

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NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

\$ in millions	June 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 4,904	\$ 3,862
Accounts receivable, net of progress payments	3,124	2,858
Inventoried costs, net of progress payments	745	798
Deferred tax assets	551	574
Prepaid expenses and other current assets	240	300
Total current assets	9,564	8,392
Property, plant and equipment, net of accumulated depreciation of \$4,283 in 2013 and \$4,146 in 2012	2,783	2,887
Goodwill	12,437	12,431
Non-current deferred tax assets	1,429	1,542
Other non-current assets	1,295	1,291
Total assets	\$27,508	\$26,543
Liabilities		
Trade accounts payable	\$ 1,195	\$ 1,392
Accrued employee compensation	1,001	1,173
Advance payments and billings in excess of costs incurred	1,802	1,759
Other current liabilities	1,641	1,732
Total current liabilities	5,639	6,056
Long-term debt, net of current portion	5,929	3,930
Pension and post-retirement benefit plan liabilities	5,426	6,085
Other non-current liabilities	956	958
Total liabilities	17,950	17,029
Commitments and contingencies (Note 7)		
Shareholders' equity		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2013—230,801,552 and 2012—239,209,812	231	239
Paid-in capital	2,124	2,924
Retained earnings	11,838	11,138
Accumulated other comprehensive loss	(4,635	) (4,787
Total shareholders' equity	9,558	9,514
Total liabilities and shareholders' equity	\$27,508	\$26,543

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

\$ in millions	Six Months Ended June 30	
	2013	2012
Operating activities		
Sources of cash		
Cash received from customers		
Collections on billings	\$ 9,558	\$ 9,911
Progress payments	2,554	2,553
Other cash receipts	32	38
Total sources of cash	12,144	12,502
Uses of cash		
Cash paid to suppliers and employees	(10,702)	(10,969)
Pension contributions	(543)	(33)
Interest paid, net of interest received	(111)	(102)
Income taxes paid, net of refunds received	(412)	(584)
Other cash payments	(47)	(43)
Total uses of cash	(11,815)	(11,731)
Net cash provided by operating activities	329	771
Investing activities		
Capital expenditures	(88)	(132)
Maturities of short-term investments	—	250
Other investing activities, net	6	44
Net cash (used in) provided by investing activities	(82)	162
Financing activities		
Net proceeds from issuance of long-term debt	2,841	—
Common stock repurchases	(921)	(555)
Payments of long-term debt	(877)	—
Cash dividends paid	(272)	(265)
Proceeds from exercises of stock options	110	67
Other financing activities, net	(86)	(34)
Net cash provided by (used in) financing activities	795	(787)
Increase in cash and cash equivalents	1,042	146
Cash and cash equivalents, beginning of year	3,862	3,002
Cash and cash equivalents, end of period	\$ 4,904	\$ 3,148

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	Six Months Ended June	
	30	2012
\$ in millions	2013	2012
Reconciliation of net earnings to net cash provided by operating activities		
Net earnings	\$977	\$986
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	225	243
Stock-based compensation	71	76
Excess tax benefits from stock-based compensation	(27	) (29
Deferred income taxes	33	(21
(Increase) decrease in assets:		
Accounts receivable, net	(268	) (175
Inventoried costs, net	62	143
Prepaid expenses and other assets	6	(95
Increase (decrease) in liabilities:		
Accounts payable and accruals	(430	) (453
Income taxes payable	60	(22
Retiree benefits	(397	) 137
Other, net	17	(19
Net cash provided by operating activities	\$329	