

TRW INC
Form 425
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**FILING PURSUANT TO RULE 425 OF THE
SECURITIES ACT OF 1933, AS AMENDED**

FILER: NORTHROP GRUMMAN CORPORATION

SUBJECT COMPANY: TRW, INC. (NO. 1-2384)

**FILING: REGISTRATION STATEMENT ON FORM S-4
(REGISTRATION NO. 333-83672)**

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For Immediate Release

**NORTHROP GRUMMAN REPORTS
THIRD QUARTER 2002 EARNINGS**

Sales Increase 24 Percent to \$4.2 Billion

Cash From Operations Totals \$459 Million

Company to Sell Component Technologies Businesses

Company Revises 2002 Guidance To Reflect Quarterly Results and Discontinued Operations

Confirms 2003 Economic Earnings Guidance Associated With Ongoing Businesses

LOS ANGELES Oct. 17, 2002 Northrop Grumman Corporation (NYSE: NOC) today reported net income from continuing operations of \$141 million for the 2002 third quarter, or \$1.17 per share, on 115.2 million average diluted shares outstanding, compared with adjusted net income from continuing operations of \$140 million, or \$1.56 per share, on 86.4 million average diluted shares in the year ago period. These results are adjusted to exclude amortization of goodwill in 2001 in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*. On an economic earnings basis, Northrop Grumman's 2002 third quarter earnings from continuing operations increased to \$154 million, or \$1.28 per share, compared with \$100 million, or \$1.09 per share, for the comparable period in 2001. In the 2002 third

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quarter, the company reported pension income of \$23 million compared with \$88 million for the same period a year earlier.

The company's 2002 third quarter results included an \$87 million pre-tax charge on its Polar Tanker program and a \$65 million pre-tax charge on its F-16 Block 60 contract. The 2002 third quarter results also included positive pre-tax adjustments of \$69 million on the cancelled commercial cruise ship program and \$20 million on a Technology Services contract. Before these items, 2002 third quarter GAAP earnings from continuing operations totaled \$182 million, or \$1.53 per share, and economic earnings from continuing operations totaled \$195 million, or \$1.64 per share.

In September 2002, Northrop Grumman entered into a definitive agreement to sell two of its Electronic Systems sector businesses, Electron Devices and Ruggedized Displays. The company expects these sales to close in the fourth quarter of 2002. During the third quarter, the company decided to sell the businesses of its Component Technologies sector and expects to conclude the sale of these businesses within the next 12 months. As a result, these businesses are reported as discontinued operations for both the current and prior years. The company reported an estimated after-tax loss on disposal of \$208 million, which considers only those businesses that may be sold at a loss. Gains realized on the sale of any of these businesses will be reported in the period in which their divestiture is complete.

Sales for the quarter ended Sept. 30, 2002, were \$4.2 billion, up 24 percent from the \$3.4 billion reported for the 2001 third quarter, reflecting increased sales at the company's Electronic Systems, Ships and Integrated Systems segments. Northrop Grumman's operating margin for the quarter increased six percent to \$313 million compared with the adjusted \$295 million reported for the same period a year ago. For the 2002 third quarter, Northrop Grumman's contract acquisitions totaled \$4.1 billion

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compared with \$2.5 billion for the third quarter of 2001. The increase is primarily due to funding received on several Electronic Systems programs and on Ship Systems DD(X) and LHD programs. The company's business backlog at Sept. 30, 2002, was \$21.5 billion, compared with the \$15.7 billion reported a year earlier.

Kent Kresa, Northrop Grumman chairman and chief executive officer, stated, "Our core defense businesses, despite charges on two programs, continue to perform well, with 24 percent sales growth and very strong cash flow. As a result, we are confirming 2003 economic earnings guidance relating to our ongoing businesses. Additionally, we continue to be pleased with the successful integration of recent acquisitions, having achieved all integration-related milestones. We received notice yesterday that the European Union approved our acquisition of TRW. We anticipate completing the acquisition shortly and beginning the integration of that business by year-end.

Looking forward, Northrop Grumman has assembled the essential capabilities and technologies to compete for the highest priority 21st century national defense and homeland security programs. After careful consideration, we concluded that the Component Technologies businesses do not fit with our long-term strategic plan and we have decided to divest these businesses. The long-term prospects for the defense industry remain extremely bright and we are confident in Northrop Grumman's future growth prospects," Kresa concluded.

Dr. Ronald D. Sugar, Northrop Grumman president and chief operating officer, added, "Overall, our defense operations continue to deliver excellent results in acquisitions, sales, cash and margin. Our Integrated Systems sector posted another excellent quarter as did our Electronic Systems sector overall. Although we were disappointed that the complexity of the F-16 Block 60 final design and the material costs

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associated with it exceeded our original estimates and required the additional investment, finalizing the design significantly reduces the risk of executing on the balance of the program.

We are also disappointed with the charge on the Polar Tanker program. Despite this charge, we are bullish on the outlook for our shipbuilding business, due to increased defense budget spending, significant new contract wins and a strengthened management team, Sugar concluded.

For the first nine months of 2002, income from continuing operations and before the cumulative effect of accounting change totaled \$471 million. Net loss for the first nine months of 2002 was \$160 million and includes the cumulative effect of an accounting change on Jan. 1, 2002, to recognize the impairment of goodwill in the company's Component Technologies reporting units, along with the anticipated loss from the sale of the businesses.

Reflecting the net effect of the significant items, the company has revised its 2002 GAAP earnings guidance for continuing operations to a range of \$5.65 to \$5.75 per share. 2002 economic earnings for continuing operations are now expected to range between \$6.10 and \$6.20 per share. Those values are before the consideration of the impairment of goodwill. For 2002, the company expects to generate cash available to pay down debt to be in excess of \$500 million. For 2003, the company confirmed its economic earnings guidance relating to the ongoing businesses of \$7.60 to \$8.10 per share. Due to the uncertainty of the pension asset returns for 2002 and potential changes to the actuarial assumptions, the company cannot provide an estimate for 2003 pension expense and therefore cannot provide reliable 2003 GAAP guidance at this time.

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If on a plan-by-plan basis, the value of pension assets is less than its accumulated pension benefit obligation at year-end, the company will be required to recognize a non-cash reduction to retained earnings. This adjustment would not impact the company's income statement, cash flow or bank covenants.

Sector Results

Electronic Systems sector sales in the third quarter of 2002 were \$1.3 billion compared with the \$1.2 billion reported in the third quarter of 2001. The increase is due to higher sales in C4ISR&N, Aerospace Electronic Systems and Space, partially offset by lower sales in Navigation Systems. Operating margin for the quarter was \$75 million compared with adjusted operating margin of \$119 million for the same period last year. Third quarter operating margin includes a pre-tax charge of \$65 million for the F-16 Block 60 fixed price combat avionics program, offsetting margin improvements across the sector. The complexity of the integrated electronic warfare system portion of the sensor suite, the design of which was finalized during the third quarter, and the associated material costs, exceed that of the originally proposed configuration. The contract, which is currently in the EMD and transition to production phases, is expected to be completed in 2007.

Ships, which includes the financial results of the Newport News and Ship Systems sectors, generated 2002 third quarter sales of \$1.1 billion and operating margin of \$64 million compared with sales of \$528 million and an adjusted operating loss of \$31 million in the 2001 third quarter. The 2002 third quarter results reflect the November 2001 acquisition of Newport News. Upon completion of a comprehensive third quarter review of the estimated costs to complete the three remaining Polar Tanker ships, Ships segment recorded a 2002 third quarter pre-tax charge of \$87 million to

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operating margin. The increased estimate to complete reflects a reduced learning curve experience ship to ship as well as one-time schedule penalties. The third ship is scheduled for delivery in the second quarter of 2003, and the fourth and fifth ships, which are approximately 50 percent and 15 percent complete, respectively, are planned for delivery in 2004.

Ships segment's 2002 third quarter operating margin also includes a pre-tax adjustment of \$69 million recorded to reverse previously established reserves. During the quarter, Northrop Grumman reached an agreement to sell the partially complete structures and material associated with its cancelled commercial cruise ship program to Norwegian Cruise Line. Also during the quarter the company successfully concluded negotiations on the majority of the program's vendor terminations. Last year's third quarter results include a pre-tax charge to operating margin of \$60 million on the commercial cruise ship program.

Information Technology sector reported third quarter sales of \$1.1 billion and operating margin of \$89 million compared with sales of \$1.0 billion and adjusted operating margin of \$69 million reported in the third quarter of 2001. Third quarter 2002 operating margin includes a \$20 million favorable pre-tax adjustment resulting from the restructuring of a Technology Services contract.

Integrated Systems sector generated sales of \$807 million in the third quarter, up from the \$718 million reported for the same period a year ago due to increased F-35 and unmanned vehicles sales. Operating margin for the quarter was \$83 million compared with adjusted operating margin of \$82 million reported in the third quarter of 2001. Third quarter 2001 results included a \$20 million positive adjustment for Joint STARS and downward cumulative margin rate adjustments on unmanned vehicle contracts totaling \$10 million.

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Component Technologies, which is included in discontinued operations, reported sales for the quarter of \$130 million and operating margin of \$2 million as compared with sales of \$142 million and adjusted operating margin of \$2 million in the prior year. While Component Technologies sales and operating profit continue to be adversely affected by the downturn in the telecommunications industry, its non-telecommunications businesses continue to generate solid performance.

In the third quarter of 2002, the company generated net cash from operations of \$459 million, compared with \$206 million for the same period last year. Net debt at Sept. 30, 2002, was \$4.6 billion, down from the \$5.0 billion reported at Dec. 31, 2001. Net debt to total capital decreased to 36 percent from 38 percent at the end of 2001.

Cumulative Effect Of Accounting Change

Effective Jan. 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. As a result, all 2001 and 2002 discussions of operating results exclude goodwill amortization. Further details are contained in the Additional Information Section.

During the second quarter of 2002, the company completed the first step of the required initial test for potential impairment of goodwill recorded at Jan. 1, 2002. The results indicated potential impairment only in the reporting units of the Component Technologies sector due to unfavorable market conditions. During the third quarter of 2002, the company completed the measurement of the Component Technologies goodwill impairment as of Jan. 1, 2002, and recorded a non-cash charge of \$432 million, which, in accordance with GAAP, is reported in the 2002 first quarter under the caption cumulative effect of accounting change.

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As previously announced, the company and TRW Inc. have entered into a definitive merger agreement. The transaction is subject to review under the Hart-Scott-Rodino Act. Shareholders of both companies must also approve the transaction. The companies expect to complete the transaction in the fourth quarter of 2002.

Northrop Grumman Corporation is a \$17 billion, global defense company with its worldwide headquarters in Los Angeles. Northrop Grumman provides technologically advanced, innovative products, services and solutions in defense and commercial electronics, systems integration, information technology and nuclear and non-nuclear shipbuilding and systems. With approximately 96,000 employees and operations in 44 states and 25 countries, Northrop Grumman serves U.S. and international military, government and commercial customers.

Note: Certain statements and assumptions in this release contain or are based on forward-looking information (that Northrop Grumman believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risks and uncertainties. Such forward-looking information includes, among other things, the statements above as to the impact of the proposed TRW Inc. acquisition on revenues and earnings. Such statements are subject to numerous assumptions and uncertainties, many of which are outside Northrop Grumman's control. These include Northrop Grumman's ability to successfully integrate its acquisitions, assumptions with respect to future revenues, expected program performance and cash flows, the outcome of contingencies including litigation, environmental remediation, divestitures of businesses, successful negotiation of contracts with labor unions and anticipated costs of capital investments. Northrop Grumman's operations are subject to various additional 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 factors, including, without limitation, Northrop Grumman's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military aircraft, military and civilian electronic systems and support, information technology; naval vessels, space systems and related technologies, as well as other economic, political and technological risks and uncertainties and other risk factors set out in Northrop Grumman's filings from time to time with the Securities and Exchange Commission, including, without limitation, Northrop Grumman reports on Form 10-K and Form 10-Q.

Northrop Grumman Corporation filed a registration statement on Form S-4 (File No. 333-83672) with the Securities and Exchange Commission on March 4, 2002 that has been amended to include a joint proxy statement/prospectus relating to the proposed merger of

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NORTHROP GRUMMAN REPORTS
THIRD QUARTER 2002 EARNINGS

Northrop Grumman and TRW Inc. The directors, certain executive officers and other employees and representatives of Northrop Grumman and TRW Inc. may be deemed to be participants in the solicitation of proxies for the shareholders meeting relating to the proposed merger. The joint proxy statement/prospectus contains important information regarding such potential participants and other important matters which should be read by Northrop Grumman and TRW shareholders before making any decisions regarding the merger. Copies of joint proxy statement/prospectus, and any amendments or supplements thereto, may be obtained without charge at the SEC's website at www.sec.gov as they become available.

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Northrop Grumman will webcast its security analyst conference call at 11:00 a.m. EDT on Oct. 17, 2002. A live audio broadcast of the conference call will be available on the investor relations page of the company's Web site at <http://www.northropgrumman.com>.

Members of the news media may receive our releases via e-mail by registering at:
http://www.northropgrumman.com/cgi-bin/regist_form.cgi

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NORTHROP GRUMMAN CORPORATION

FINANCIAL HIGHLIGHTS
(in millions, except per share)

| | THIRD QUARTER | | FIRST NINE MONTHS | |
|----------------------------------------------------------------------------|--------------------------|----------------------------|-------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| FINANCIAL METRICS (Other Data) | | | | |
| Economic earnings from continuing operations (See reconciliation below) | \$ 154 | \$ 100 | \$ 507 | \$ 346 |
| Economic earnings per share from continuing operations | \$ 1.28 | \$ 1.09 | \$ 4.27 | \$ 4.12 |
| Net cash provided by operating activities* | \$ 459 | \$ 206 | \$ 932 | \$ 192 |
| EBITDAP from continuing operations (See reconciliation below) | \$ 383 | \$ 329 | \$ 1,299 | \$ 907 |
| EBITDAP per share from continuing operations | \$ 3.32 | \$ 3.81 | \$ 11.35 | \$ 11.19 |
| | Sep, 30 2002* | Dec, 31 2001(3) | | |

BALANCE SHEET DATA

| | | |
|----------------------------------------|--------|--------|
| Cash and cash equivalents | \$ 456 | \$ 460 |
| Accounts receivable | 2,320 | 2,630 |
| Inventoried costs | 1,107 | 1,142 |
| Property, plant and equipment, net | 2,824 | 2,584 |
| Total debt | 5,031 | 5,488 |
| Net debt(1) | 4,575 | 5,028 |
| Mandatorily redeemable preferred stock | 350 | 350 |
| Shareholders' equity | 7,500 | 7,391 |
| Total assets | 20,818 | 20,850 |
| Net debt to capitalization ratio(2) | 36% | 38% |

| | THIRD QUARTER | | FIRST NINE MONTHS | |
|--|---------------|------|-------------------|------|
| | 2002 | 2001 | 2002 | 2001 |

RECONCILIATIONS FROM GAAP TO FINANCIAL METRICS

| | | | | |
|-------------------------------------------------------------------------------------------|--------|--------|--------|--------|
| Calculation of Economic earnings from continuing operations | | | | |
| Income from continuing operations before taxes and cumulative effect of accounting change | \$ 198 | \$ 146 | \$ 675 | \$ 503 |
| Amortization of goodwill | | 55 | | 142 |
| Amortization of purchased intangibles | 41 | 44 | 123 | 96 |
| Pension income | (23) | (88) | (68) | (247) |
| Income tax | (62) | (57) | (223) | (148) |
| Economic earnings from continuing operations | 154 | 100 | 507 | 346 |
| Preferred dividend | (6) | (6) | (18) | (12) |
| Economic earnings from continuing operations available to common shareholders | \$ 148 | \$ 94 | \$ 489 | \$ 334 |
| Diluted weighted average common shares outstanding | 115.21 | 86.40 | 114.41 | 81.03 |
| Calculation of EBITDAP from continuing operations | | | | |
| Income from continuing operations before taxes and cumulative effect of accounting change | \$ 198 | \$ 146 | \$ 675 | \$ 503 |
| Net interest expense | 104 | 101 | 314 | 237 |

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| | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Depreciation | 63 | 71 | 255 | 176 |
| Amortization of goodwill | | 55 | | 142 |
| Amortization of purchased intangibles | 41 | 44 | 123 | 96 |
| Pension income | (23) | (88) | (68) | (247) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| EBITDAP from continuing operations | \$ 383 | \$ 329 | \$ 1,299 | \$ 907 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

* Preliminary amounts

- (1) Total debt less cash and cash equivalents
- (2) Net debt divided by the sum of shareholders' equity, mandatorily redeemable preferred stock and total debt
- (3) Certain prior year amounts have been reclassified to conform to the 2002 presentation

NORTHROP GRUMMAN CORPORATION
OPERATING RESULTS
(\$ in millions, except per share)

| | CONTRACT ACQUISITIONS | | | | FUNDED ORDER BACKLOG | |
|---------------------------|-----------------------|-----------------|-------------------|------------------|----------------------|------------------|
| | THIRD QUARTER | | FIRST NINE MONTHS | | SEPTEMBER 30 | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Electronic Systems | \$ 1,873 | \$ 979 | \$ 4,434 | \$ 4,152 | \$ 6,536 | \$ 5,918 |
| Ships | 752 | 126 | 3,806 | 5,950 | 10,243 | 4,873 |
| Information Technology | 1,024 | 1,064 | 3,101 | 3,137 | 1,474 | 1,427 |
| Integrated Systems | 484 | 420 | 2,374 | 1,483 | 3,454 | 3,557 |
| Intersegment Eliminations | (80) | (46) | (246) | (181) | (219) | (122) |
| Total Segments | \$ 4,053 | \$ 2,543 | \$ 13,469 | \$ 14,541 | \$ 21,488 | \$ 15,653 |

| | NET SALES | | | | OPERATING MARGIN (LOSS) | | | |
|---------------------------|-----------------|-----------------|-------------------|-----------------|-------------------------|---------------|-------------------|---------------|
| | THIRD QUARTER | | FIRST NINE MONTHS | | THIRD QUARTER | | FIRST NINE MONTHS | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001* | 2002 | 2001* |
| Electronic Systems | \$ 1,302 | \$ 1,186 | \$ 3,811 | \$ 3,086 | \$ 75 | \$ 99 | \$ 285 | \$ 220 |
| Ships | 1,101 | 528 | 3,335 | 1,077 | 64 | (42) | 238 | (9) |
| Information Technology | 1,098 | 1,047 | 3,063 | 2,653 | 89 | 53 | 179 | 125 |
| Integrated Systems | 807 | 718 | 2,443 | 2,217 | 83 | 74 | 275 | 218 |
| Intersegment Eliminations | (94) | (69) | (276) | (166) | | | | |
| Total Segments | \$ 4,214 | \$ 3,410 | \$ 12,376 | \$ 8,867 | \$ 311 | \$ 184 | \$ 977 | \$ 554 |

Reconciliation to operating margin

| | | | | |
|-------------------------------------------|------|------|------|------|
| Royalty income reclassification | (2) | (6) | (12) | (13) |
| Unallocated corporate expenses | (21) | (19) | (57) | (58) |
| Unallocated state tax provision (benefit) | 2 | (7) | 4 | (21) |
| Pension income | 23 | 88 | 68 | 247 |

Operating margin

| | | | | |
|-----------------------------|------------|------------|------------|------------|
| Operating margin | 313 | 240 | 980 | 709 |
| Other income (expense), net | (9) | 14 | 15 | 63 |
| Interest expense | (106) | (108) | (320) | (269) |

Income from continuing operations
before taxes and cumulative effect of
accounting change

| | | | | |
|--|-----|-----|-----|-----|
| | 198 | 146 | 675 | 503 |
|--|-----|-----|-----|-----|

Federal and foreign income taxes

| | | | | |
|--|----|----|-----|-----|
| | 57 | 54 | 204 | 185 |
|--|----|----|-----|-----|

Income from continuing operations

| | | | | |
|--|-----|----|-----|-----|
| | 141 | 92 | 471 | 318 |
|--|-----|----|-----|-----|

Income (loss) from discontinued
operations, net of tax

| | | | | |
|--|---|------|---|------|
| | 8 | (13) | 9 | (22) |
|--|---|------|---|------|

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| | | | | |
|-------------------------------------------------------------|------------------|----------------|------------------|----------------|
| Loss on disposal of discontinued operations, net of tax | (208) | | (208) | |
| Income (loss) before cumulative effect of accounting change | (59) | 79 | 272 | 296 |
| Cumulative effect of accounting change | | | (432) | |
| Net income (loss) | \$ (59) | \$ 79 | \$ (160) | \$ 296 |
| Diluted earnings per share | | | | |
| Continuing operations | \$ 1.17 | \$ 1.00 | \$ 3.96 | \$ 3.77 |
| Income (loss) from discontinued operations | 0.07 | (0.16) | 0.08 | (0.27) |
| Loss on disposal of discontinued operations | (1.80) | | (1.82) | |
| Before cumulative effect of accounting change | (0.56) | 0.84 | 2.22 | 3.50 |
| Cumulative effect of accounting change | | | (3.78) | |
| Diluted earnings per share | \$ (0.56) | \$ 0.84 | \$ (1.56) | \$ 3.50 |

- Certain prior year amounts have been reclassified to conform to the 2002 presentation. However, operating results for 2001 do not reflect the effects of SFAS No. 142 Goodwill and Other Intangible Assets. See "Additional Financial Information" for the effects of SFAS No. 142.

NORTHROP GRUMMAN CORPORATION
ADDITIONAL SEGMENT INFORMATION
(\$ in millions)

SALES BY BUSINESS AREA WITHIN SEGMENT

| | THIRD QUARTER | | FIRST NINE MONTHS | |
|------------------------------------------------|-----------------|-----------------|-------------------|-----------------|
| | 2002 | 2001 * | 2002 | 2001 * |
| Electronic Systems | | | | |
| Aerospace Electronic Systems | \$ 371 | \$ 323 | \$ 1,080 | \$ 945 |
| C ⁴ ISR&N | 370 | 296 | 967 | 837 |
| Defensive Electronic Systems | 170 | 177 | 563 | 405 |
| Navigation Systems | 159 | 208 | 484 | 381 |
| Space Systems | 103 | 42 | 324 | 133 |
| Other | 129 | 140 | 393 | 385 |
| | <u>\$ 1,302</u> | <u>\$ 1,186</u> | <u>\$ 3,811</u> | <u>\$ 3,086</u> |
| Ships | | | | |
| Aircraft Carriers | \$ 518 | \$ | \$ 1,488 | \$ |
| Surface Combatants | 216 | 219 | 596 | 433 |
| Amphibious & Auxiliary | 196 | 146 | 585 | 316 |
| Submarines | 130 | | 415 | |
| Commercial & International | 15 | 158 | 169 | 287 |
| Services & Other | 56 | 38 | 165 | 79 |
| Intrasegment Eliminations | (30) | (33) | (83) | (38) |
| | <u>\$ 1,101</u> | <u>\$ 528</u> | <u>\$ 3,335</u> | <u>\$ 1,077</u> |
| Information Technology | | | | |
| Government Information Technology | \$ 696 | \$ 668 | \$ 1,972 | \$ 1,580 |
| Enterprise Information Technology | 195 | 195 | 500 | 544 |
| Technology Services | 172 | 149 | 486 | 423 |
| Commercial Information Technology | 54 | 58 | 160 | 165 |
| Intrasegment Eliminations | (19) | (23) | (55) | (59) |
| | <u>\$ 1,098</u> | <u>\$ 1,047</u> | <u>\$ 3,063</u> | <u>\$ 2,653</u> |
| Integrated Systems | | | | |
| Air Combat Systems | \$ 465 | \$ 363 | \$ 1,422 | \$ 1,177 |
| Airborne Early Warning/Electronic Warfare | 200 | 178 | 555 | 530 |
| Airborne Ground Surveillance/Battle Management | 140 | 175 | 466 | 516 |
| Intrasegment Eliminations | 2 | 2 | | (6) |
| | <u>\$ 807</u> | <u>718</u> | <u>\$ 2,443</u> | <u>\$ 2,217</u> |

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

AMORTIZATION OF PURCHASED INTANGIBLES

| | | | | |
|------------------------|-------|-------|-------|-------|
| Electronic Systems | \$ 21 | \$ 23 | \$ 64 | \$ 60 |
| Ships | 11 | 11 | 33 | 15 |
| Information Technology | 5 | 7 | 15 | 10 |
| Integrated Systems | 4 | 3 | 11 | 11 |

| | | | |
|-------------|-------------|-------------|-------------|
| <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| \$ 41 | \$ 44 | \$ 123 | \$ 96 |
| <u> </u> | <u> </u> | <u> </u> | <u> </u> |

NORTHROP GRUMMAN CORPORATION
ADDITIONAL FINANCIAL INFORMATION
(in millions, except per share)

OPERATING MARGIN AND EARNINGS SUMMARIES

| | THIRD QUARTER | | FIRST NINE MONTHS | |
|----------------------------------------------------------|----------------------|--------------|--------------------------|--------------|
| | 2002 | 2001* | 2002 | 2001* |
| Operating Margin (Loss) | | | | |
| Electronic Systems as reported | \$ 75 | \$ 99 | \$ 285 | \$ 220 |
| Add back goodwill amortization | | 20 | | 56 |
| Electronic Systems comparable | 75 | 119 | 285 | 276 |
| Ships as reported | 64 | (42) | 238 | (9) |
| Add back goodwill amortization | | 11 | | 20 |
| Ships comparable | 64 | (31) | 238 | 11 |
| Information Technology as reported | 89 | 53 | 179 | 125 |
| Add back goodwill amortization | | 16 | | 42 |
| Information Technology comparable | 89 | 69 | 179 | 167 |
| Integrated Systems as reported | 83 | 74 | 275 | 218 |
| Add back goodwill amortization | | 8 | | 24 |
| Integrated Systems comparable | 83 | 82 | 275 | 242 |
| Segment Operating Margin as reported | 311 | 184 | 977 | 554 |
| Add back goodwill amortization | | 55 | | 142 |
| Segment Operating Margin comparable | \$ 311 | \$ 239 | \$ 977 | \$ 696 |
| Total Operating Margin as reported | \$ 313 | \$ 240 | \$ 980 | \$ 709 |
| Add back goodwill amortization | | 55 | | 142 |
| Total Operating Margin comparable | \$ 313 | \$ 295 | \$ 980 | \$ 851 |
| Income from Continuing Operations | | | | |
| As reported | \$ 141 | \$ 92 | \$ 471 | \$ 318 |
| Add back goodwill amortization, net of tax | | 48 | | 129 |
| Comparable | \$ 141 | \$ 140 | \$ 471 | \$ 447 |
| Net Income | | | | |
| As reported | \$ (59) | \$ 79 | \$ (160) | \$ 296 |
| Add back goodwill amortization, net of tax | | 48 | | 129 |
| Add back goodwill in discontinued operations, net of tax | | 21 | | 30 |
| Comparable | \$ (59) | \$ 148 | \$ (160) | \$ 455 |

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| | | | | |
|--------------------------------------------------------------|-----------|---------|-----------|---------|
| Diluted Earnings Per Share from continuing operations | | | | |
| As reported | \$ 1.17 | \$ 1.00 | \$ 3.96 | \$ 3.77 |
| Add back goodwill amortization, net of tax | | 0.56 | | 1.59 |
| Comparable | \$ 1.17 | \$ 1.56 | \$ 3.96 | \$ 5.36 |
| Diluted Earnings Per Share | | | | |
| As reported | \$ (0.56) | \$ 0.84 | \$ (1.56) | \$ 3.50 |
| Add back goodwill amortization, net of tax | | 0.56 | | 1.59 |
| Add back goodwill in discontinued operations, net of tax | | 0.24 | | 0.37 |
| Comparable | \$ (0.56) | \$ 1.64 | \$ (1.56) | \$ 5.46 |
| Weighted average shares outstanding for diluted EPS | 115.21 | 86.40 | 114.41 | 81.03 |

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