

**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 September 30, 2012
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)

80-0640649

(I.R.S. Employer
Identification No.)

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)

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 October 19, 2012, 245,443,909 shares of common stock were outstanding.

NORTHROP GRUMMAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Sales				
Product	\$3,487	\$3,780	\$10,227	\$11,352
Service	2,783	2,832	8,515	8,554
Total sales	6,270	6,612	18,742	19,906
Operating costs and expenses				
Product	2,629	2,846	7,760	8,709
Service	2,333	2,352	6,963	7,007
General and administrative expenses	572	589	1,713	1,713
Operating income	736	825	2,306	2,477
Other (expense) income				
Interest expense	(53)	(57)	(158)	(168)
Other, net	12	(13)	30	(8)
Earnings from continuing operations before income taxes	695	755	2,178	2,301
Federal and foreign income tax expense	236	235	733	765
Earnings from continuing operations	459	520	1,445	1,536
Earnings from discontinued operations, net of tax	—	—	—	34
Net earnings	\$ 459	\$ 520	\$ 1,445	\$ 1,570
Basic earnings per share				
Continuing operations	\$ 1.86	\$ 1.89	\$ 5.77	\$ 5.43
Discontinued operations	—	—	—	0.12
Basic earnings per share	\$ 1.86	\$ 1.89	\$ 5.77	\$ 5.55
Weighted-average common shares outstanding, in millions	247.2	274.9	250.4	283.1
Diluted earnings per share				
Continuing operations	\$ 1.82	\$ 1.86	\$ 5.67	\$ 5.34
Discontinued operations	—	—	—	0.11
Diluted earnings per share	\$ 1.82	\$ 1.86	\$ 5.67	\$ 5.45
Weighted-average diluted shares outstanding, in millions	252.1	279.3	255.0	287.9
Net earnings (from above)	\$ 459	\$ 520	\$ 1,445	\$ 1,570
Other comprehensive income				
Change in cumulative translation adjustment	12	(25)	3	2
Change in unrealized gain on marketable securities and cash flow hedges, net of tax	(1)	—	(1)	(2)
Change in unamortized benefit plan costs, net of tax	50	22	154	57
Other comprehensive income, net of tax	61	(3)	156	57
Comprehensive income	\$ 520	\$ 517	\$ 1,601	\$ 1,627

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

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

<i>\$ in millions</i>	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 3,525	\$ 3,002
Accounts receivable, net of progress payments	2,973	2,964
Inventoried costs, net of progress payments	627	873
Deferred tax assets	560	496
Prepaid expenses and other current assets	217	411
Total current assets	7,902	7,746
Property, plant and equipment, net of accumulated depreciation of \$4,164 in 2012 and \$3,933 in 2011	2,895	3,047
Goodwill	12,373	12,374
Non-current deferred tax assets	680	900
Other non-current assets	1,412	1,344
Total assets	\$25,262	\$25,411
Liabilities		
Trade accounts payable	\$ 1,194	\$ 1,481
Accrued employee compensation	1,036	1,196
Advance payments and billings in excess of costs incurred	1,838	1,777
Other current liabilities	1,622	1,681
Total current liabilities	5,690	6,135
Long-term debt, net of current portion	3,931	3,935
Pension and post-retirement benefit plan liabilities	3,754	4,079
Other non-current liabilities	940	926
Total liabilities	14,315	15,075
Commitments and contingencies (Note 8)		
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: 2012—245,691,965; 2011—253,889,622	246	254
Paid-in capital	3,296	3,873
Retained earnings	10,739	9,699
Accumulated other comprehensive loss	(3,334)	(3,490)
Total shareholders' equity	10,947	10,336
Total liabilities and shareholders' equity	\$25,262	\$25,411

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>\$ in millions</i>	Nine Months Ended September	
	2012	2011
Operating activities		
Sources of cash—continuing operations		
Cash received from customers		
Collections on billings	\$15,632	\$16,527
Progress payments	3,233	3,119
Other cash receipts	67	103
Total sources of cash—continuing operations	18,932	19,749
Uses of cash—continuing operations		
Cash paid to suppliers and employees	(16,015)	(17,131)
Pension contributions	(349)	(572)
Interest paid, net of interest received	(177)	(205)
Income taxes paid, net of refunds received	(760)	(791)
Excess tax benefits from stock-based compensation	(41)	(24)
Other cash payments	(7)	—
Total uses of cash—continuing operations	(17,349)	(18,723)
Cash provided by continuing operations	1,583	1,026
Cash used in discontinued operations	—	(232)
Net cash provided by operating activities	1,583	794
Investing activities		
Continuing operations		
Maturities of short-term investments	250	—
Capital expenditures	(196)	(326)
Contribution received from the spin-off of shipbuilding business	—	1,429
Other investing activities, net	7	49
Cash provided by investing activities from continuing operations	61	1,152
Cash used in investing activities from discontinued operations	—	(63)
Net cash provided by investing activities	61	1,089
Financing activities		
Common stock repurchases	(846)	(1,598)
Cash dividends paid	(401)	(414)
Proceeds from exercises of stock options	153	97
Excess tax benefits from stock-based compensation	41	24
Payments of long-term debt	—	(750)
Other financing activities, net	(68)	3
Net cash used in financing activities	(1,121)	(2,638)
Increase (decrease) in cash and cash equivalents	523	(755)
Cash and cash equivalents, beginning of year	3,002	3,701
Cash and cash equivalents, end of period	\$ 3,525	\$ 2,946

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

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<i>\$ in millions</i>	Nine Months Ended September 30	
	2012	2011
Reconciliation of net earnings to net cash provided by operating activities		
Net earnings	\$1,445	\$1,570
Net earnings from discontinued operations	—	(34)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	325	334
Amortization	46	53
Stock-based compensation	111	97
Excess tax benefits from stock-based compensation	(41)	(24)
(Increase) decrease in assets:		
Accounts receivable, net	(27)	(20)
Inventoried costs, net	224	22
Prepaid expenses and other assets	(90)	11
Increase (decrease) in liabilities:		
Accounts payable and accruals	(370)	(848)
Deferred income taxes	47	205
Income taxes payable	32	4
Retiree benefits	(99)	(416)
Other, net	(20)	72
Cash provided by continuing operations	1,583	1,026
Cash used in discontinued operations	—	(232)
Net cash provided by operating activities	\$1,583	\$ 794

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

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Nine Months Ended September 30	
	2012	2011
Common stock		
Beginning of year	\$ 254	\$ 291
Common stock repurchased	(14)	(28)
Stock awards and options	6	3
End of period	246	266
Paid-in capital		
Beginning of year	3,873	7,778
Common stock repurchased	(831)	(1,626)
Stock awards and options	249	182
Spin-off of shipbuilding business	5	(1,874)
End of period	3,296	4,460
Retained earnings		
Beginning of year	9,699	8,124
Net earnings	1,445	1,570
Dividends declared	(405)	(414)
End of period	10,739	9,280
Accumulated other comprehensive loss		
Beginning of year	(3,490)	(2,757)
Other comprehensive income, net of tax	156	57
Spin-off of shipbuilding business	—	524
End of period	(3,334)	(2,176)
Total shareholders' equity	\$10,947	\$11,830
Cash dividends declared per share	\$ 1.60	\$ 1.47

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

Principles of Consolidation and Reporting

These unaudited condensed consolidated financial statements include the accounts of Northrop Grumman Corporation and subsidiaries (herein referred to as "Northrop Grumman," the "company," "we," "us," or "our"). All intercompany accounts, transactions, and profits are eliminated in consolidation. Investments in equity securities and joint ventures where the company has significant influence, but not control, are accounted for using the equity method.

The accompanying unaudited condensed consolidated financial statements of the company have been prepared by management in accordance with the rules of the Securities and Exchange Commission (SEC) for interim reporting purposes. These statements include all adjustments of a normal recurring nature considered necessary by management for a fair presentation of the condensed consolidated financial position, results of operations, and cash flows.

The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the information contained in the company's Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Annual Report on Form 10-K).

The quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is management's long-standing practice to establish actual interim closing dates using a "fiscal" calendar, in which we close our books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. This practice is only used at interim periods within a reporting year.

Accounting Estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation thereof requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared using the most current and best available information; however, actual results could differ materially from those estimates.

The majority of our contracts are accounted for under the percentage-of-completion method. For such contracts, changes in estimates of contract sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes, in the current period, the cumulative effect of the changes in contract performance as if the revised estimate had been used since contract inception. Changes in contract estimates occur for a variety of reasons, including changes in: contract scope, estimated contract revenue, contract cost estimates due to unanticipated cost growth or the resolution of contract risks at lower cost than anticipated, and contract overhead costs or general and administrative expenses over the performance period. The company has an extensive contract management process involving several functional organizations and numerous personnel who are skilled at managing contract activities. As the company's business involves performing on a broad portfolio of long-term contracts, generally involving complex customized products and services, changes in estimates occur routinely over the contract performance period.

Significant changes in estimates on a single contract could have a material effect on the company's consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions and financial impact of the change. During the three and nine months ended September 30, 2012, aggregate net changes in contract estimates recognized using the cumulative catch-up method of accounting increased operating income by \$214 million (\$0.55 per diluted share) and \$701 million (\$1.79 per diluted share), respectively. During the three and nine months ended September 30, 2011, such changes in contract estimates increased operating income by \$196 million (\$0.45 per diluted share) and \$541 million (\$1.22 per diluted share), respectively. No discrete event or adjustment to an individual contract was material to the condensed consolidated statements of earnings and comprehensive income for any of these periods.

Related Party Transactions

For all periods presented, the company had no material related party transactions.

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Accounting Standards Updates

Accounting standards updates effective after September 30, 2012, are not expected to have a material effect on the company's consolidated financial position or results of operations.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	September 30, 2012	December 31, 2011
Unamortized benefit plan costs, net of tax benefit of \$2,184 as of September 30, 2012, and \$2,289 as of December 31, 2011	(\$3,333)	(\$3,487)
Cumulative translation adjustment	(1)	(4)
Net unrealized gain on marketable securities and cash flow hedges, net of tax expense	—	1
Total accumulated other comprehensive loss	(\$3,334)	(\$3,490)

Unamortized benefit plan costs consist primarily of net after-tax actuarial losses totaling \$3.7 billion and \$3.9 billion as of September 30, 2012, and December 31, 2011, respectively. Net actuarial gains or losses principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions, primarily changes in the discount rate.

2. EARNINGS PER SHARE, SHARE REPURCHASES AND DIVIDENDS ON COMMON STOCK

Basic Earnings Per Share

Basic earnings per share from both continuing and discontinued operations are calculated by dividing the respective earnings by the weighted-average number of shares of common stock outstanding during each period.

Diluted Earnings Per Share

Diluted earnings per share includes the dilutive effect of awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 4.9 million shares and 4.6 million shares for the three and nine months ended September 30, 2012, respectively. The dilutive effect of these securities totaled 4.4 million shares and 4.8 million shares for the three and nine months ended September 30, 2011, respectively. The weighted-average diluted shares outstanding for the three and nine months ended September 30, 2012, exclude anti-dilutive stock options to purchase approximately 1.3 million shares and 2.7 million shares, respectively, because such options have exercise prices in excess of the average market price of the company's common stock during the period. The weighted-average diluted shares outstanding for the three and nine months ended September 30, 2011, excludes anti-dilutive stock options to purchase approximately 3.6 million shares and 2.8 million shares, respectively.

Share Repurchases

The table below summarizes the company's share repurchases:

Repurchase Program Authorization Date	Amount Authorized (in millions)	Total Shares Repurchased (in millions)	Average Price Per Share ⁽²⁾	Shares Repurchased (in millions)	
				Nine Months Ended September 30	
				2012	2011
June 16, 2010 ⁽¹⁾	\$5,350	57.8	\$58.46	13.6	28.4

(1) In June 2010, our board of directors authorized a share repurchase program of up to \$2.0 billion of the company's common stock. Following this initial authorization, our board of directors increased the remaining repurchase authorization to \$4.0 billion in April 2011 and again increased the remaining repurchase authorization to \$2.0 billion in September 2012. As of September 30, 2012, our repurchases under the program totaled \$3.4 billion, and \$2.0 billion remained under this share repurchase authorization. The repurchase program will expire when we have used all authorized funds for repurchase.

(2) Includes commissions paid.

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Share repurchases take place at management's discretion under pre-established, non-discretionary programs, depending on market conditions, in the open market, or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase program authorizations.

In connection with the spin-off of the former shipbuilding business (see Note 3), the company obtained a Private Letter Ruling from the Internal Revenue Service that generally limits our share repurchases to approximately 88 million shares within two years of the spin-off. The limitation expires on March 31, 2013. Since the spin-off we have repurchased approximately 54 million shares of our common stock, and as of September 30, 2012, approximately 34 million shares remained under the Private Letter Ruling limitation. Cash available from unusual transactions, such as the disposition of significant assets, should they arise, can be used to repurchase additional shares.

Dividends on Common Stock

In May 2012, the company increased the quarterly common stock dividend to \$0.55 per share from the previous amount of \$0.50 per share.

In May 2011, the company increased the quarterly common stock dividend to \$0.50 per share from the previous amount of \$0.47 per share.

3. BUSINESS DISPOSITIONS AND DISCONTINUED OPERATIONS**Spin-off of Shipbuilding Business**

Effective March 31, 2011, the company completed the spin-off to its shareholders of Huntington Ingalls Industries, Inc. (HII). HII was formed to operate the company's former shipbuilding business. The company made a pro rata distribution to its shareholders of one share of HII common stock for every six shares of the company's common stock held on the record date of March 30, 2011, or 48.8 million shares of HII common stock. HII paid a \$1.4 billion cash contribution to the company. There was no gain or loss recognized as a result of the spin-off transaction.

Prior to the completion of the spin-off, the company and HII entered into a Separation and Distribution Agreement dated March 29, 2011, and several other agreements that govern the post-separation relationship. These agreements generally provide that each party is responsible for its respective assets, liabilities and obligations following the spin-off, including employee benefits, intellectual property, information technology, insurance, and tax-related assets and liabilities. The agreements also describe the company's commitments to provide HII with certain transition services for up to one year. During the first quarter of 2012, the company and HII agreed to extend certain information technology transition services for a limited time beyond the initial one-year term. Costs incurred for transition services are reimbursed by HII.

In connection with the spin-off, the company incurred \$28 million of non-deductible transaction costs in the nine months ended September 30, 2011, which were included in discontinued operations.

Discontinued Operations

Earnings for the former shipbuilding business and an adjustment to the gain from a previous divestiture recognized in the nine months ended September 30, 2011, are reported as discontinued operations, as presented in the following table:

\$ in millions

Sales	\$1,646
Earnings from discontinued operations	59
Income tax expense	(26)
Earnings, net of tax	33
Gain on previous divestiture, net of income tax expense of \$1	1
Earnings from discontinued operations, net of tax	\$ 34

There were no assets or liabilities related to these discontinued operations included in the condensed consolidated statements of financial position as of September 30, 2012, or December 31, 2011.

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4. SEGMENT INFORMATION

The company is aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. The United States (U.S.) government is the primary customer for all four of our segments.

The company, from time to time, acquires or disposes of businesses and realigns contracts, programs or business areas among and within its operating segments. Portfolio shaping and internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. The change in goodwill represents goodwill allocated to a business divested from the Information Systems segment during the three months ended June 30, 2012, offset by a business acquisition in September 2012, the operations of which will be included in the Information Systems segment.

Segment Realignment

On January 1, 2012, the company transferred its missile business (principally the Intercontinental Ballistic Missile (ICBM) program), from Aerospace Systems to Technical Services. In connection with this realignment, \$51 million of goodwill was transferred from Aerospace Systems to Technical Services. The segment sales and segment operating income for the three and nine months ended September 30, 2011, have been recast to reflect the missile business transfer. Sales of \$117 million and \$379 million for the three and nine months ended September 30, 2011, respectively, were transferred from Aerospace Systems to Technical Services. Segment operating income of \$9 million and \$34 million for the three and nine months ended September 30, 2011, respectively, were transferred from Aerospace Systems to Technical Services.

Intersegment Eliminations

As of December 31, 2011, the company revised its reporting of intersegment operating costs and expenses, whereby intersegment costs are now reported based on the predominant attributes of the customer contract, rather than the attributes of the intersegment work performed. As a result, in the condensed consolidated statements of earnings and comprehensive income, product costs have been retrospectively increased by \$146 million and \$505 million for the three and nine months ended September 30, 2011, respectively, and service costs have been retrospectively decreased by the same amounts, while consolidated sales, operating costs and expenses, segment operating income and operating income remain unchanged.

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The following table presents sales and operating income by segment:

<i>\$ in millions</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales				
Aerospace Systems	\$2,586	\$2,455	\$ 7,373	\$ 7,521
Electronic Systems	1,707	1,905	5,175	5,504
Information Systems	1,776	1,955	5,476	6,011
Technical Services	748	796	2,281	2,403
Intersegment eliminations	(547)	(499)	(1,563)	(1,533)
Total sales	6,270	6,612	18,742	19,906
Operating income				
Aerospace Systems	288	295	859	902
Electronic Systems	279	293	859	814
Information Systems	170	187	577	570
Technical Services	62	63	206	193
Intersegment eliminations	(69)	(61)	(200)	(197)
Total segment operating income	730	777	2,301	2,282
Reconciliation to operating income:				
Unallocated corporate expenses	(27)	(48)	(89)	(96)
Net FAS/CAS pension adjustment	34	100	101	302
Royalty income adjustment	(1)	(4)	(7)	(11)
Total operating income	\$ 736	\$ 825	\$ 2,306	\$ 2,477

Unallocated Corporate Expenses

Unallocated corporate expenses include the portion of corporate expenses not considered allowable or allocable under applicable U.S. government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments. Such costs generally consist of a portion of management and administration, legal, environmental, certain compensation costs, certain retiree benefits, and other expenses.

Net FAS/CAS Pension Adjustment

The net FAS (GAAP Financial Accounting Standards)/CAS pension adjustment is the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. The decreases in net FAS/CAS pension adjustment for the three and nine months ended September 30, 2012, as compared to the same periods in 2011, are primarily due to increased GAAP pension expense resulting from amortization of prior year actuarial losses.

Royalty Income Adjustment

The royalty income adjustment reflects the reclassification of royalty income to other income for financial reporting purposes.

5. INCOME TAXES

<i>\$ in millions</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Federal and foreign income tax expense	236	235	733	765
Effective income tax rate	34.0%	31.1%	33.7%	33.2%

The company's higher effective tax rates for the three and nine months ended September 30, 2012, reflect the change in net tax related primarily to the absence of research tax credits, which expired at the end of 2011, and the finalization of prior year tax returns. For the three months ended September 30, 2011, the company recognized net

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tax benefits of \$14 million, primarily due to finalizing the research and development tax credits and manufacturing deductions claimed upon filing the 2010 tax return.

The company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. The company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Internal Revenue Service is currently conducting an examination of the company's tax returns for the years 2007 through 2011. Open tax years related to state and foreign jurisdictions remain subject to examination, but are not considered material.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents fair value information for those assets and liabilities measured at fair value on a recurring basis:

<i>\$ in millions</i>	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets (Liabilities)				
Marketable securities				
Trading	\$ 249	\$ 249	\$ 219	\$ 219
Available-for-sale	3	3	4	4
Held-to-maturity time deposits	—	—	250	250
Derivatives	1	1	7	7
Long-term debt, including current portion	(3,936)	(4,902)	(3,940)	(4,675)

There were no transfers of financial instruments between the three levels of fair value hierarchy during the nine months ended September 30, 2012.

The carrying amounts of all other financial instruments not shown above approximate fair value due to their short-term nature.

Investments in Marketable Securities

The company holds a portfolio of marketable securities to partially fund long-term deferred compensation programs, consisting of equity securities that are classified as either trading or available-for-sale, which can be liquidated without restriction. These assets are recorded at fair value and are valued using Level 1 inputs (quoted market prices). In addition, the company occasionally holds short-term investments classified as held-to-maturity that are recorded at cost. Marketable securities as of September 30, 2012, were included in other non-current assets in the condensed consolidated statements of financial position. As of December 31, 2011, marketable securities of \$250 million were included in prepaid expenses and other current assets and \$223 million were included in other non-current assets in the condensed consolidated statements of financial position.

Derivative Financial Instruments and Hedging Activities

The company's derivative portfolio consists solely of foreign currency forward contracts. The notional values at September 30, 2012, and December 31, 2011, were \$156 million and \$233 million, respectively.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value, and substantially all of these instruments are valued using Level 2 inputs.

Unrealized gains or losses on the effective portion of cash flow hedges are reclassified from other comprehensive income to earnings from continuing operations upon the settlement of the underlying transactions. Hedge contracts not designated for hedge accounting and the ineffective portion of cash flow hedges are recorded in other income. The derivative fair values and related unrealized gains/losses at September 30, 2012, and December 31, 2011, were not material.

Long-term Debt

The fair value of long-term debt is calculated using Level 2 inputs based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

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7. LITIGATION, INVESTIGATIONS AND CLAIMS

Litigation

On May 4, 2012, the company commenced an action, *Northrop Grumman Systems Corp. v. United States*, in the U.S. Court of Federal Claims. This lawsuit relates to an approximately \$875 million firm fixed price contract awarded to the company in 2007 by the U.S. Postal Service (USPS) for the construction and delivery of flats sequencing systems (FSS) as part of the postal automation program. The FSS have been delivered. Over the past two years, the company has submitted three certified claims to the USPS related to this program seeking approximately \$179 million. Some of the company's claims are for unpaid portions of the contract price (approximately \$63 million) and direct costs incurred. Other claims are based on the company's assertions that through various acts and omissions over the life of the contract, the USPS adversely affected the cost and schedule of performance and materially altered the company's obligations under the contract. With limited exceptions, the USPS Contracting Officer denied the company's three certified claims. On April 13, 2012, when the Contracting Officer denied most of the company's last two claims, he also asserted claims against the company in the net amount of approximately \$341 million. The USPS claims appear to the company to be primarily that, due to delays in performance, the USPS was damaged because it did not realize certain cost savings it expected from deploying the systems earlier. The company's lawsuit seeks damages up to approximately \$179 million under various theories of liability; it also disputes the claims asserted by the USPS Contracting Officer. The United States has not yet responded to the company's complaint, with an answer, counterclaim and/or other filing. Although the ultimate outcome of this litigation, including any possible loss, cannot be predicted or estimated at this time, the company intends vigorously to pursue this matter.

The company is a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to the company to date and other than with respect to the FSS matter, which is discussed separately above, the company does not believe that the outcome of any matter pending against the company is likely to have a material adverse effect on the company's consolidated financial position as of September 30, 2012, or its annual results of operations or cash flows.

8. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies

Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as settlements in the process of negotiation, contract changes, claims and requests for equitable adjustment for previously unanticipated contract costs. As of September 30, 2012, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

Contract Terminations

The company's U.S. government contracts generally contain provisions that enable the customer to terminate a contract for default, or for the convenience of the government. If the contract is terminated for default, the contractor may not be entitled to recover any of its costs on partially completed work and may be liable to the government for any excess re-procurement costs of acquiring similar products or services from another contractor, and for certain other damages. Termination of a contract for the convenience of the government may occur when the government concludes it is in the best interests of the U.S. government that the contract be terminated. Under a termination for convenience, the contractor is typically entitled to be paid in accordance with the contract's terms for costs incurred under the contract prior to the effective date of termination, plus a reasonable profit and settlement expenses. The company does not have any contract terminations in process that would have a material effect on our consolidated financial position or results of operations at September 30, 2012.

Guarantees of Subsidiary Performance Obligations

From time to time, in the ordinary course of business, the company guarantees obligations of its subsidiaries under certain contracts. Generally, the company is liable under such an arrangement only if its subsidiary is unable to perform under its contract. Historically, the company has not incurred any substantial liabilities as a result of these guarantees.

In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (collectively, Business Arrangements) to support the company's products and services in domestic and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements, or to the extent of such subsidiary's obligations under the applicable contract. In

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some cases, however, the company is required to guarantee the performance of the Business Arrangements and, in such cases, the company generally obtains cross-indemnification from the other members of the Business Arrangements.

At September 30, 2012, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

U.S. Government Cost Claims

From time to time, the company is advised of claims by the U.S. government concerning certain potential disallowed costs, plus, at times, penalties and interest. When such findings are presented, the company and the U.S. government representatives engage in discussions to enable the company to evaluate the merits of these claims, as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's expected exposure to the matters raised by the U.S. government. Such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available. The company believes that it has adequately reserved for any disputed amounts and that the outcome of any such matters would not have a material adverse effect on its consolidated financial position as of September 30, 2012, or its annual results of operations or cash flows.

Environmental Matters

The estimated cost to complete remediation has been accrued where the company believes, based on the facts and circumstances known to the company, that it is probable that the company will incur costs to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party by the Environmental Protection Agency, or similarly designated by other environmental agencies. As of September 30, 2012, management estimates that the range of reasonably possible future costs for environmental remediation is between \$310 million and \$737 million, before considering the amount recoverable through overhead charges on U.S. government contracts. At September 30, 2012, the amount accrued for probable environmental remediation costs was \$335 million, of which \$87 million is accrued in other current liabilities and \$248 million is accrued in other non-current liabilities. A portion of the environmental remediation costs is expected to be recoverable through overhead charges on U.S. government contracts and, accordingly, such amounts are deferred in inventoried costs and other non-current assets. As of September 30, 2012, \$57 million is deferred in inventoried costs and \$139 million is deferred in other non-current assets. These amounts are evaluated for recoverability on a routine basis. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position as of September 30, 2012, or its annual results of operations or cash flows.

Financial Arrangements

In the ordinary course of business, the company uses stand-by letters of credit and guarantees issued by commercial banks and surety bonds issued principally by insurance companies to guarantee the performance on certain obligations. At September 30, 2012, there were \$207 million of stand-by letters of credit, \$225 million of bank guarantees, and \$93 million of surety bonds outstanding.

Indemnifications

The company has retained certain warranty, environmental, income tax, and other potential liabilities in connection with certain of its divestitures. The settlement of these liabilities is not expected to have a material adverse effect on the company's consolidated financial position as of September 30, 2012, or its annual results of operations or cash flows.

Operating Leases

Rental expense for operating leases, excluding discontinued operations, for the three and nine months ended September 30, 2012, was \$80 million and \$260 million, respectively, and was \$111 million and \$326 million for the three and nine months ended September 30, 2011, respectively. These amounts are net of immaterial amounts of sublease rental income.

Guarantee of Former Subsidiary

A subsidiary of the company has guaranteed HII's outstanding \$84 million Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project), Taxable Series 1999A, which mature in 2024. The immaterial fair value of this guarantee was recorded in other long-term liabilities. In addition, HII has assumed the responsibility for the payment and performance of all outstanding indebtedness, obligations and liabilities of the company under this guarantee, and has agreed to indemnify the company against all liabilities that may be incurred in connection with this guarantee.

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9. RETIREMENT BENEFITS

The cost of the company's pension plans and post-retirement medical and life benefit plans are shown in the following table:

<i>\$ in millions</i>	Three Months Ended September 30				Nine Months Ended September 30			
	Pension Benefits		Medical and Life Benefits		Pension Benefits		Medical and Life Benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
Components of net periodic benefit cost								
Service cost	\$131	\$130	\$ 8	\$ 8	\$ 392	\$ 390	\$25	\$24
Interest cost	296	305	28	29	888	915	82	87
Expected return on plan assets	(427)	(423)	(17)	(16)	(1,281)	(1,269)	(51)	(48)
Amortization of:								
Prior service cost (credit)	(15)	6	(13)	(13)	(44)	18	(38)	(39)
Net loss from previous years	107	41	5	3	321	123	15	9
Other	—	—	—	—	2	—	—	—
Net periodic benefit cost	\$ 92	\$ 59	\$11	\$11	\$ 278	\$ 177	\$33	\$33

Employer Contributions

The company's required minimum funding in 2012 for its defined benefit pension plans and its post-retirement medical and life benefit plans is approximately \$65 million and \$120 million, respectively. For the nine months ended September 30, 2012, contributions of \$349 million have been made to the company's defined benefit pension plans, including a voluntary pension contribution totaling \$300 million, and contributions of \$75 million have been made to the company's post-retirement medical and life benefit plans.

The company also sponsors defined contribution plans. For the three months ended September 30, 2012, and 2011, contributions of \$66 million and \$64 million, respectively, were made to these plans. For the nine months ended September 30, 2012 and 2011, contributions of \$218 million and \$225 million, respectively, were made to these plans.

10. STOCK COMPENSATION PLANS AND OTHER COMPENSATION ARRANGEMENTS

Stock Awards

On February 15, 2012, the company granted certain employees 0.5 million restricted stock rights (RSRs) and 1.2 million restricted performance stocks rights (RPSRs) under the company's long-term incentive stock plan, with a grant date aggregate fair value of \$102 million. The RSRs will vest on the third anniversary of the grant date, while the RPSRs will vest and pay out based on the achievement of financial metrics for the three-year period ending December 31, 2014.

Cash Awards

On February 15, 2012, the company granted certain employees 0.6 million cash units (CUs) and 1.3 million cash performance units (CPUs) with a minimum aggregate payout amount of \$34 million and a maximum aggregate payout amount of \$190 million. The CUs will vest and settle in cash on the third anniversary of the grant date, while the CPUs will vest and pay out based on the achievement of financial metrics for the three-year period ending December 31, 2014.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Falls Church, Virginia

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of September 30, 2012, and the related condensed consolidated statements of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and cash flows and changes in shareholders' equity for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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 reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 7, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011, 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
McLean, Virginia
October 23, 2012

NORTHROP GRUMMAN CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Northrop Grumman Corporation (herein referred to as "Northrop Grumman," the "company," "we," "us," or "our") is a leading global security company providing innovative systems, products and solutions in unmanned systems, cybersecurity, C4ISR, and logistics and modernization to government and commercial customers worldwide through four sectors: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. We participate in many high-priority defense and government services technology programs in the United States (U.S.) and abroad as a prime contractor, principal subcontractor, partner, or preferred supplier. We conduct the majority of our business with the U.S. government, principally the Department of Defense (DoD). We also conduct business with foreign, state, and local governments, as well as domestic and international commercial customers.

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as our 2011 Annual Report on Form 10-K, which provides a more thorough discussion of our systems, products and solutions; environment; industry outlook; and business trends. See further discussions in the Consolidated Operating Results and Segment Operating Results sections that follow.

Political and Economic Environment

The U.S. Government is facing substantial fiscal and economic challenges that are affecting funding for its non-discretionary and discretionary budgets. The Budget Control Act of 2011 (Budget Control Act) reduced defense budgets by at least \$487 billion over the next ten years. The President's proposed Fiscal Year (FY) 2013 Budget represents a slight decline for defense from FY 2012. Congress has not passed the FY 2013 budget, but has ratified a six-month continuing resolution that funds the U.S. Government through March 27, 2013. This continuing resolution provides for discretionary spending levels in accordance with the Budget Control Act and represents a slight increase over the FY 2012 budget.

The Congressional budget process has been marked by significant debate regarding FY 2013 defense spending. The Budget Control Act calls for additional substantial, mandatory defense spending reductions, known as "sequestration," if Congress is unable to agree on a budget that conforms with the Budget Control Act requirements. Should sequestration as currently mandated be implemented in January 2013, absent any other changes, it would have serious negative consequences for the security of our country, the defense industrial base, including Northrop Grumman, and the customers, employees, suppliers, investors, and communities that rely on the companies in the defense industrial base.

There continues to be much uncertainty regarding how sequestration would be implemented, if it were to go into effect. There are many variables in how the law could be applied that make it difficult to determine the specific impacts; however, we expect that sequestration, as currently provided for under the Budget Control Act, would result in lower revenues, profits and cash flows for our company. Such circumstances may also result in an impairment of our goodwill.

While members of Congress are discussing various options to prevent or defer sequestration's automatic spending cuts, we cannot predict whether these efforts will succeed. The outcome of the general election in November may also generate significant dialogue around the federal deficit and potential cuts in government spending. Budget decisions made in this environment could have long-term consequences for our company and the entire defense industry.

In addition to budgetary constraints, including under the Budget Control Act, we expect defense spending to be affected by the draw down of U.S. force levels tied to current major overseas deployments. As overall defense spending declines, the DoD is continuing to re-evaluate the role and structure of the U.S. military. Earlier this year, the DoD announced a new defense strategy intended to guide its priorities and budgeting decisions. The new guidance calls for the U.S. military to project power globally and operate effectively in all domains, including cybersecurity, and it places particular emphasis on Asia Pacific as an area of strategic focus. The Secretary of Defense also proposed a number of program changes and cancellations that, if implemented, would impact programs in which we participate (such as Block 30 Global Hawk and the F-35 program).

We believe that spending on recapitalization, modernization and maintenance of defense, intelligence, and homeland security assets will continue to be a national priority. Future defense spending is expected to include the development and procurement of new manned and unmanned military platforms and systems along with advanced electronics and software to enhance the capabilities of existing individual systems and provide real-time integration of individual surveillance, information management, strike, and battle management platforms. We expect significant new competitive opportunities to include long range strike, missile defense, command and control, network

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communications, enhanced situational awareness, satellite systems, restricted programs, cybersecurity, technical services and information technology contracts, as well as numerous international and homeland security programs.

Recent Developments in U.S. Government Cost Accounting Standards (CAS) Pension Recovery Rules

On December 27, 2011, the CAS Board published a final rule revising CAS 412, “Composition and Measurement of Pension Cost,” and CAS 413, “Adjustment and Allocation of Pension Cost.” These revisions partially harmonize the measurement and period of assignment of defined benefit pension plan costs allocable to U.S. government contracts, and the minimum required contribution under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, as required by the Pension Protection Act (PPA) of 2006. The rule should better align, but not eliminate, mismatches between ERISA funding requirements and CAS pension costs for U.S. government CAS covered contracts. Under the final rule, there is a five-year transition period, during which an increasing percentage of the harmonization effect is recognized, starting from 0 percent in the first year of applicability (when relatively minor changes in amortization periods for gains and losses become applicable) to 100 percent in the fifth year and thereafter. The rule became effective on February 27, 2012, (the “effective date”) with 2013 being the first year of applicability of the revised rule for any of the changes to the company's cost accounting practices required by the rule. Price proposals for CAS covered contracts awarded on or after the effective date consider the effects of the rule. For CAS covered contracts that were awarded prior to the effective date, contractors are entitled to an equitable adjustment for any additional CAS basis contract costs resulting from implementation of the final rule. We are currently assessing the amounts and timing of equitable adjustments due to the Company. Such adjustments will be subject to negotiation and cannot be determined with certainty at this time.

Operating Performance Assessment and Reporting

We manage and assess the performance of our business based on our performance on contracts and programs (two or more closely-related contracts), with consideration given to the Critical Accounting Policies, Estimates and Judgments described in Part II, Item 7 of our 2011 Annual Report on Form 10-K. Revenue on our portfolio of long-term contracts is generally recognized using the percentage of completion method, therefore sales tend to fluctuate in concert with costs across our large portfolio of contracts. Due to Federal Acquisition Regulations (FAR) rules that govern our business, most types of costs are allowable, and we do not focus on individual cost groupings (such as manufacturing, engineering, and design labor costs, subcontractor costs, material costs, overhead costs, and general and administrative costs), as much as we do on total contract costs, which is the key driver of both sales and operating income.

Our contract management process involves the use of contract estimates-at-completion (EACs) that are generally prepared and evaluated on a bottoms-up basis at least annually and reviewed on a quarterly basis over the performance period of the contract. These EACs include an estimated contract operating income margin based initially on the contract award amount, adjusted to reflect estimated risks related to contract performance. These risks typically include technical risk, schedule risk and performance risk based upon our evaluation of the contract effort. Similarly, the EACs include identified opportunities for operating income margin rate improvement. Over the performance period of the contract, our program management organizations perform evaluations of contract performance and adjust the contract revenue and cost estimates to reflect the latest reliable information available.

Our business and program management organizations are comprised of skilled professional managers whose objective is to satisfy the customer's expectations, deliver high quality products and services, and manage contract risks and opportunities to achieve an appropriate operating income margin rate on the contract. Our comprehensive business and contract management process involves personnel from the planning, production control, contracts, cost management and supply chain. As part of this overall contract management function, these personnel monitor compliance with our critical accounting policies related to contract accounting and compliance with U. S. government regulations. Contract operating income and period-to-period contract operating income margin rates are adjusted over the contract performance period to reflect changes in the risks and opportunities affecting the contract. Such adjustments may have a favorable or unfavorable effect on operating income margin depending upon the specific conditions affecting each contract.

In evaluating our operating performance, we look primarily at changes in sales and operating income, including the effects of meaningful changes in operating income as a result of changes in contract estimates and the use of the cumulative catch-up method of accounting in accordance with GAAP. Where applicable, significant fluctuations in operating performance attributable to individual contracts or programs, or changes in a specific cost element across multiple contracts are described in our analysis. Based on this approach and the nature of our operations, the discussion of results of operations first focuses around our four segments before distinguishing between products and services. Changes in sales are generally described in terms of volume, deliveries or other indicators of sales activity. For purposes of this discussion, volume generally refers to increases or decreases in cost or sales from

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production/service activity levels or delivery rates. Performance refers to changes in contract margin rates for the period, primarily related to the changes in estimates referred to above.

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below:

<i>\$ in millions, except per share amounts</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	\$6,270	\$6,612	\$18,742	\$19,906
Operating costs and expenses	5,534	5,787	16,436	17,429
Operating income	736	825	2,306	2,477
<i>Operating margin rate</i>	11.7%	12.5%	12.3%	12.4%
Interest expense	(53)	(57)	(158)	(168)
Federal and foreign income tax expense	236	235	733	765
Effective income tax rate	34.0%	31.1%	33.7%	33.2%
Diluted earnings per share	1.82	1.86	5.67	5.45
Cash provided by continuing operations	\$ 812	\$ 948	\$ 1,583	\$ 1,026

Segment operating income, as reconciled below, is a non-GAAP measure and is used by management as an internal measure of financial performance of our individual operating segments.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Segment operating income	730	777	2,301	2,282
<i>Segment operating margin rate</i>	11.6%	11.8%	12.3%	11.5%

The table below reconciles segment operating income to total operating income:

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Segment operating income	\$730	\$777	\$2,301	\$2,282
Net FAS/CAS pension adjustment	34	100	101	302
Unallocated corporate expenses	(27)	(48)	(89)	(96)
Royalty income adjustment	(1)	(4)	(7)	(11)
Total operating income	\$736	\$825	\$2,306	\$2,477

Consolidated operating results for the three months and nine months ended September 30, 2012, reflect our customer's overall lower spending levels, lower sales due to our portfolio shaping actions and our focus on working capital. Our margin rates and cash provided by operating activities demonstrate strong operating performance, and our continued focus on performance and affordability, as further discussed below.

Sales

Sales for the three and nine months ended September 30, 2012, decreased \$342 million, or 5 percent, and \$1.2 billion, or 6 percent, respectively, as compared with the same periods in 2011.

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The table below shows the variances in sales from the prior year period, by segment:

<i>\$ in millions</i>	Three Month Variance		Nine Month Variance	
Aerospace Systems	\$131	5%	(\$148)	(2%)
Electronic Systems	(198)	(10%)	(329)	(6%)
Information Systems	(179)	(9%)	(535)	(9%)
Technical Services	(48)	(6%)	(122)	(5%)

For further information by segment refer to Segment Operating Results below, and for product and service detail, refer to the Product and Service Analysis section that follows Segment Operating Results.

Operating Costs and Expenses

Operating costs and expenses are primarily comprised of labor, material, subcontractor and overhead costs, and are generally allocated to contracts as they are incurred. In accordance with industry practice and the regulations that govern cost accounting requirements for government contracts, most general corporate expenses incurred at the segment and corporate locations are considered allowable and allocable costs. For most components of the company, these general and administrative costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost.

Operating costs and expenses consist of the following:

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	30	30	30	30
	2012	2011	2012	2011
Product and service costs	\$4,962	\$5,198	\$14,723	\$15,716
General and administrative	572	589	1,713	1,713
Operating costs and expenses	\$5,534	\$5,787	\$16,436	\$17,429

Product and service costs for the three months ended September 30, 2012, decreased \$236 million, or 5 percent, as compared with the same period in 2011, consistent with the sales decline. The primary driver of the reduction in product and service costs was reduced volume at Electronic Systems and Information Systems. General and administrative expenses as a percentage of total sales increased to 9.1 percent for the three months ended September 30, 2012, from 8.9 percent for the same period in 2011, primarily due to the sales decrease from prior year.

Product and service costs for the nine months ended September 30, 2012, decreased \$993 million, or 6 percent, as compared with the same period in 2011, consistent with the sales decline. The primary driver of the reduction in product and service costs is reduced volume at all four of our segments, with Electronic Systems and Information Systems driving the majority of the decrease. General and administrative expenses as a percentage of total sales increased to 9.1 percent for the nine months ended September 30, 2012, from 8.6 percent for the same period in 2011, primarily due to the sales decrease from prior year.

For the product and service costs detail, see the Product and Service Analysis section that follows.

Operating Income

We define operating income as sales less operating costs and expenses, which includes general and administrative expenses. We also further evaluate operating income for each of the business segments in which we operate. Segment operating income reflects the aggregate performance results of contracts within a business area or segment. Excluded from this measure are certain corporate-level expenses that are not considered allowable or allocable under applicable CAS and FAR, and net FAS/CAS pension differences.

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Changes in estimated sales, operating costs and expenses, and the resulting operating income related to our contracts accounted for using the percentage-of-completion method are recorded using the cumulative catch-up method of accounting. The aggregate effects of these favorable and unfavorable changes in estimates across our portfolio of contracts can have a significant effect upon our reported sales and operating income in each of our reporting periods. For the three and nine months ended September 30, 2012 and 2011, we recognized operating income adjustments as follows:

<i>\$ in millions</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Favorable adjustments	\$277	\$297	\$886	\$802
Unfavorable adjustments	(63)	(101)	(185)	(261)
Net operating income adjustments	\$214	\$196	\$701	\$541

Our cost management and contract performance management activities have led to overall improved contract performance.

Segment Operating Income

Segment operating income for the three months ended September 30, 2012, decreased \$47 million, or 6 percent, and for the nine months ended September 30, 2012, increased \$19 million, or 1 percent.

The table below shows the variances in segment operating income from the prior year period, by segment:

<i>\$ in millions</i>	Three Month Variance		Nine Month Variance	
Aerospace Systems	(\$ 7)	(2%)	(\$43)	(5%)
Electronic Systems	(14)	(5%)	45	6%
Information Systems	(17)	(9%)	7	1%
Technical Services	(1)	(2%)	13	7%

The segment operating income decrease for the three months ended September 30, 2012, was principally driven by the lower sales volume. These impacts were partially offset by higher net operating income adjustments due to improved contract performance resulting from our cost management and contract performance management activities.

The segment operating income increase for the nine months ended September 30, 2012, includes higher net operating adjustments due to improved contract performance resulting from our cost management and contract performance improvement activities. Portfolio shaping also contributed to higher segment operating income. These increases were partially offset by the lower sales volume, as well as the F/A-18 program's transition from the multi-year 2 contract to the lower margin multi-year 3 contract.

Net FAS/CAS Pension Adjustment

The net FAS/CAS pension adjustment is pension expense determined in accordance with GAAP less pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended September 30, 2012 and 2011, the net FAS/CAS pension adjustment resulted in an increase to total operating income of \$34 million and \$100 million, respectively. For the nine months ended September 30, 2012 and 2011, it resulted in an increase to total operating income of \$101 million and \$302 million, respectively. The decrease in net FAS/CAS pension adjustment for both the three and nine month periods, is primarily due to increased GAAP pension expense resulting from amortization of prior year actuarial losses and decreased CAS pension expense allocated to the operating segments due to the design change in the company's defined benefit pension plans adopted in December 2011.

Unallocated Corporate Expenses

Unallocated corporate expenses generally include the portion of corporate expenses other than FAS pension cost not considered allowable or allocable under applicable CAS and FAR rules, and therefore not allocated to the segments, such as a portion of management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses.

Royalty Income Adjustment

Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes.

NORTHROP GRUMMAN CORPORATION**Interest Expense**

Interest expense for the three and nine months ended September 30, 2012, decreased \$4 million and \$10 million, respectively, as compared with the same periods in 2011. The decrease for the nine months primarily reflects a lower weighted average interest cost on debt outstanding.

Federal and Foreign Income Tax Expense

The higher effective tax rate for the three and nine months ended September 30, 2012, reflects the change in net tax benefits related to prior year tax returns and the absence of research tax credits, which expired at the end of 2011. These impacts were partially offset by higher current and prior year domestic manufacturing deductions.

Diluted Earnings Per Share

The lower diluted earnings per share for the three months ended September 30, 2012, reflects lower net earnings primarily due to the lower FAS/CAS pension adjustment, largely offset by the effect of share repurchases. The higher diluted earnings per share for the nine months ended September 30, 2012, reflects the full impact of 2011 share repurchases, which were primarily purchased in the second half of the year, and the effect of our 2012 share repurchases to date, partially offset by lower earnings primarily due to the lower FAS/CAS pension adjustment.

Cash Provided By Continuing Operations

For the three months ended September 30, 2012, cash provided by continuing operations was \$812 million, as compared with \$948 million in the same period in 2011. The decrease reflects a pre-tax \$300 million voluntary pension contribution in the third quarter of 2012.

For the nine months ended September 30, 2012, cash provided by continuing operations was \$1.6 billion, as compared with \$1.0 billion in the same period in 2011. The increase reflects the higher pension contributions in 2011, and lower working capital in 2012.

SEGMENT OPERATING RESULTS**Basis of Presentation**

We are aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. This section discusses sales, segment operating income and margin rates by segment. The reconciliation of segment sales to total sales is provided in Note 4 to the condensed consolidated financial statements, with the difference being intersegment sales eliminations. The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in the Operating Income section of the Consolidated Operating Results section above. On January 1, 2012, we transferred our missile business (primarily the Intercontinental Ballistic Missile (ICBM) program) from the Aerospace Systems segment to our Technical Services segment. The segment sales and segment operating income for the three and nine months ended September 30, 2011, have been recast to reflect the missile business transfer. Sales of \$117 million and \$379 million, and segment operating income of \$9 million and \$34 million, were transferred from Aerospace Systems to Technical Services for the three and nine months ended September 30, 2011, respectively.

AEROSPACE SYSTEMS

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	\$2,586	\$2,455	\$7,373	\$7,521
Operating income	288	295	859	902
<i>Operating margin rate</i>	11.1%	12.0%	11.7%	12.0%

Current Quarter

Aerospace Systems sales for the three months ended September 30, 2012, increased \$131 million, or 5 percent, as compared with the same period in 2011. The increase was primarily due to a \$92 million increase in sales of unmanned systems and a \$70 million increase in military aircraft sales, partially offset by lower space systems sales. The increase in unmanned systems sales was primarily related to ramping up on the NATO Alliance Ground Surveillance (AGS) and Fire Scout programs. The increase in military aircraft sales was primarily related to the F-35 program, partially offset by lower volume for several other programs, including F/A-18 and Joint Surveillance Target Attack Radar System (JSTARS). Higher volume for the F-35 program includes the first deliveries under LRIP lot 5, the first lot accounted for under the units-of-delivery revenue recognition method. Higher sales for these

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programs were offset by lower volume for restricted programs and the termination of a weather satellite program in space systems programs.

Operating income for the three months ended September 30, 2012, decreased \$7 million, or 2 percent, and operating margin rate decreased to 11.1 percent from 12.0 percent. The lower operating margin rate primarily reflects the F/A-18 program's transition from the multi-year 2 contract to the lower margin multi-year 3 contract.

Year to Date

Aerospace Systems sales for the nine months ended September 30, 2012, decreased \$148 million, or 2 percent. The decrease is primarily due to lower space systems sales of \$198 million and lower military aircraft sales of \$134 million, partially offset by \$156 million of higher unmanned systems sales. The decline in space systems sales was primarily due to lower volume on restricted programs and the termination of a weather satellite program. The decline in military aircraft sales was primarily related to lower volume on the F/A-18, B-2 and JSTARS programs, partially offset by higher volume on the E-2D Advanced Hawkeye and F-35 programs. The increase in unmanned systems was primarily related to ramping up on the NATO AGS and Fire Scout programs, partially offset by lower systems development and demonstration volume in the Broad Area Maritime Surveillance (BAMS) program.

Operating income for the nine months ended September 30, 2012, decreased \$43 million, or 5 percent, and operating margin rate decreased to 11.7 percent from 12.0 percent. The lower operating income and margin rate reflect the F/A-18 program's transition from the multi-year 2 contract to the lower margin multi-year 3 contract.

ELECTRONIC SYSTEMS

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	\$1,707	\$1,905	\$5,175	\$5,504
Operating income	279	293	859	814
<i>Operating margin rate</i>	16.3%	15.4%	16.6%	14.8%

Current Quarter

Electronic Systems sales for the three months ended September 30, 2012, decreased \$198 million, or 10 percent, as compared with the same period in 2011. The decrease includes lower volume for combat avionics and postal automation programs, including the company's previously announced decision to de-emphasize its domestic postal automation business. Volume for infrared countermeasures and laser systems programs also declined due to force reductions in overseas contingency operations. These declines were partially offset by higher volume for space systems.

Operating income for the three months ended September 30, 2012, decreased \$14 million, or 5 percent, consistent with the lower volume described above, and operating margin rate increased to 16.3 percent from 15.4 percent, primarily the result of performance improvements on several programs and a \$25 million provision recorded in the prior year period for a domestic postal automation program.

Year to Date

Electronic Systems sales for the nine months ended September 30, 2012, decreased \$329 million, or 6 percent. The decrease was largely due to \$148 million lower domestic postal automation sales resulting from our decision to de-emphasize that business, as well as lower volume for laser systems, combat avionics, international postal automation and tactical communications programs. These declines were partially offset by \$154 million higher volume on space systems.

Operating income for the nine months ended September 30, 2012, increased \$45 million, or 6 percent, and operating margin rate increased to 16.6 percent from 14.8 percent. The higher operating income and operating margin rate are primarily the result of performance improvements on several programs at Intelligence, Surveillance, Reconnaissance & Targeting Systems, including the effect of unfavorable adjustments in the prior year on a domestic postal automation program.

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INFORMATION SYSTEMS

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	\$1,776	\$1,955	\$5,476	\$6,011
Operating income	170	187	577	570
<i>Operating margin rate</i>	9.6%	9.6%	10.5%	9.5%

Current Quarter

Information Systems sales for the three months ended September 30, 2012, decreased \$179 million, or 9 percent, as compared with the same period in 2011. Lower volume for defense and intelligence programs accounted for \$158 million of the sales decline, reflecting the termination of the Joint Tactical Radio Systems Airborne, Maritime and Fixed (JTRS AMF) program and lower volume for several restricted programs, partially offset by higher volume for the ENCORE II Information Technology support program.

Operating income for the three months ended September 30, 2012, decreased \$17 million, or 9 percent, and operating margin rate was unchanged at 9.6 percent. The decline in operating income is consistent with the lower volume discussed above.

Year to Date

Information Systems sales for the nine months ended September 30, 2012, decreased \$535 million, or 9 percent. Lower volume for defense programs accounted for \$293 million of the sales decline, primarily due to the JTRS AMF termination and lower volume on several other programs, partially offset by \$91 million higher sales for ENCORE II. Intelligence sales declined \$124 million due to lower volume on several restricted programs, and civil systems sales were down \$113 million primarily due to the sale of the County of San Diego IT outsourcing contract and the sale of Park Air Norway, which together reduced sales by \$69 million as compared with the same period in 2011.

Operating income for the nine months ended September 30, 2012, increased \$7 million, or 1 percent, and operating margin rate increased to 10.5 percent from 9.5 percent. The higher operating margin rate is primarily due to cost management and performance improvements.

TECHNICAL SERVICES

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	\$748	\$796	\$2,281	\$2,403
Operating income	62	63	206	193
<i>Operating margin rate</i>	8.3%	7.9%	9.0%	8.0%

Current Quarter

Technical Services sales for the three months ended September 30, 2012, decreased \$48 million, or 6 percent, as compared with the same period in 2011. The decrease was primarily due to reductions on the KC-10 logistics program and lower volume as a result of portfolio shaping efforts.

Operating income for the three months ended September 30, 2012, was comparable to the prior year period, and operating margin rate increased to 8.3 percent from 7.9 percent.

Year to Date

Technical Services sales for the nine months ended September 30, 2012, decreased \$122 million, or 5 percent. The decrease was primarily due to reduced volume from portfolio shaping, lower KC-10 logistics activity, and lower ICBM logistics and modernization activity.

Operating income for the nine months ended September 30, 2012, increased \$13 million, or 7 percent, and operating margin rate increased to 9.0 percent from 8.0 percent. The higher operating income and operating margin rate were primarily due to improved performance on the KC-10 program and risk reduction on a DHS contract, partially offset by lower sales volume as described above.

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PRODUCT AND SERVICE ANALYSIS

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September 30	
	30			
	2012	2011	2012	2011
Product sales	\$3,487	\$3,780	\$10,227	\$11,352
Product costs	2,629	2,846	7,760	8,709
<i>% of product sales</i>	75.4%	75.3%	75.9%	76.7%
Service sales	2,783	2,832	8,515	8,554
Service costs	2,333	2,352	6,963	7,007
<i>% of service sales</i>	83.8%	83.1%	81.8%	81.9%

As of December 31, 2011, the company revised its reporting of intersegment operating costs and expenses. See Note 4 to the condensed consolidated financial statements.

Current Quarter

Product costs as a percentage of product sales were comparable with the prior period.

Service costs as a percentage of service sales increased 70 basis points for the three months ended September 30, 2012, as compared with the same period in 2011. The increase reflects lower margins on naval and marine service contracts and restricted programs at Electronic Systems and several service programs at Aerospace Systems.

Year to Date

Product costs as a percentage of product sales decreased 80 basis points for the nine months ended September 30, 2012. The decrease reflects lower margin on military aircraft sales at Aerospace Systems, as described in Segment Operating results.

Service costs as a percentage of service sales were comparable with the prior period.

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The following table presents sales and operating costs and expenses by segment between product and service:

<i>\$ in millions</i>	Three Months Ended September 30				Nine Months Ended September 30			
	2012		2011		2012		2011	
Segment Information:	Sales	Operating Costs and Expenses	Sales	Operating Costs and Expenses	Sales	Operating Costs and Expenses	Sales	Operating Costs and Expenses
Aerospace Systems								
Product	\$2,263	\$1,996	\$2,135	\$1,865	\$ 6,455	\$ 5,714	\$ 6,575	\$ 5,809
Service	323	302	320	295	918	800	946	810
Electronic Systems								
Product	1,270	1,023	1,569	1,317	3,969	3,243	4,530	3,844
Service	437	405	336	295	1,206	1,073	974	846
Information Systems								
Product	384	339	114	94	522	457	368	330
Service	1,392	1,267	1,841	1,674	4,954	4,442	5,643	5,111
Technical Services								
Product	140	129	123	102	147	134	384	338
Service	608	557	673	631	2,134	1,941	2,019	1,872
Segment Totals								
Total Product	\$4,057	\$3,487	\$3,941	\$3,378	\$11,093	\$ 9,548	\$11,857	\$10,321
Total Service	2,760	2,531	3,170	2,895	9,212	8,256	9,582	8,639
Intersegment eliminations	(547)	(478)	(499)	(438)	(1,563)	(1,363)	(1,533)	(1,336)
Total segment⁽¹⁾	\$6,270	\$5,540	\$6,612	\$5,835	\$18,742	\$16,441	\$19,906	\$17,624

(1) The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in Consolidated Operating Results above.

Product Sales and Product Costs

Current Quarter

Product sales for the three months ended September 30, 2012, increased by \$116 million, as compared to the same period in 2011. The increase was primarily driven by higher sales volume at Information Systems, including inter-company sales, and higher military aircraft sales at Aerospace Systems, partially offset by lower volume in combat avionics and domestic and international postal automation programs at Electronic Systems.

Product costs for the three months ended September 30, 2012, increased by \$109 million, as compared with the same period in 2011. The increase was driven by higher product costs at Information Systems and Aerospace Systems, partially offset by reduced costs at Electronic Systems.

Year to Date

Product sales for the nine months ended September 30, 2012, decreased \$764 million, as compared with the same period in 2011, primarily due to lower product sales volume at Aerospace Systems and Electronic Systems. Further driving the decline was the change in classification of the ICBM program in Technical Services from product to service at the beginning of 2012, as the program transitioned from modernization to predominantly sustainment services. The decrease at Aerospace Systems was driven by lower military aircraft and space systems sales, partially offset by higher unmanned systems sales. The decrease at Electronic Systems primarily relates to combat avionics and domestic and international postal automation programs.

Product costs for the nine months ended September 30, 2012, decreased by \$773 million, as compared to the same period in 2011, primarily due to lower sales volume at Electronic Systems and the change in classification of the ICBM program at Technical Services. The decrease at Electronic Systems was mainly due to reduced domestic and international postal automation and combat avionics costs.

NORTHROP GRUMMAN CORPORATION**Service Sales and Service Costs***Current Quarter*

Service sales for the three months ended September 30, 2012, decreased \$410 million, as compared with the same period in 2011, primarily due to lower sales at Information Systems. The decrease at Information Systems was due to lower volume on certain restricted programs and several other programs.

Service costs for the three months ended September 30, 2012, decreased \$364 million, primarily due to lower sales at Information Systems, as described in Segment Operating Results.

Year to Date

Service sales for the nine months ended September 30, 2012, decreased \$370 million, as compared with the same period in 2011. The decrease was primarily due to lower service sales at Information Systems across a number of programs, partially offset by the change in classification of the ICBM program at Technical Services and higher service sales at Electronic Systems.

Service costs for the nine months ended September 30, 2012, decreased \$383 million, due to lower volume on service contracts across a number of programs at Information Systems. The decrease was partially offset by higher service volume at Electronic Systems and the transitioning of the ICBM program from product to service at Technical Services.

BACKLOG

Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which, as of the reporting date, funding is not contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders (except for authorized task orders, which are included up to the authorized value). For multi-year service contracts with non-federal government customers, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made and is adjusted routinely to represent the amount expected to result in future revenues.

On January 1, 2012, the company transferred its missile business, previously reported in Aerospace Systems to Technical Services. As a result of this realignment, \$599 million of backlog was transferred from Aerospace Systems to Technical Services. Total backlog as of December 31, 2011, reflects this transfer.

Backlog consisted of the following at September 30, 2012, and December 31, 2011:

<i>\$ in millions</i>	September 30, 2012			December 31, 2011
	Funded	Unfunded	Total Backlog	Total Backlog
Aerospace Systems	\$11,040	\$ 8,901	\$19,941	\$18,638
Electronic Systems	7,675	1,455	9,130	9,123
Information Systems	4,385	4,433	8,818	8,563
Technical Services	2,536	584	3,120	3,191
Total backlog	\$25,636	\$15,373	\$41,009	\$39,515

New Awards

The estimated value of contract awards booked during the nine months ended September 30, 2012, was \$20.2 billion. Significant new awards during this period include \$1.7 billion for the NATO AGS Unmanned System, \$1.4 billion for the James Webb Space Telescope (JWST), \$1.1 billion for E-2D Advanced Hawkeye, \$797 million for F-35 and \$624 million for Global Hawk.

LIQUIDITY AND CAPITAL RESOURCES

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in our business and to maximize shareholder value. We actively manage our capital resources through working capital improvements, capital expenditures, strategic business acquisitions and divestitures, debt issuance and repayment, required and voluntary pension contributions, and returning cash to shareholders through dividend payments and repurchases of common stock. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including net cash provided by operations, free cash flow, net debt-to-equity, and net

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debt-to-capital. We believe these measures are useful to investors in assessing our financial performance and condition.

In September 2012, the company entered into a 364-day revolving credit facility in an aggregate principal amount of \$500 million (the "2012 Credit Agreement") replacing the company's existing 364-day revolving credit facility entered into in September 2011 (the "2011 Credit Agreement"). The terms and conditions of the 2012 Credit Agreement are substantially the same as the terms and conditions in the 2011 Credit Agreement. The company was in compliance with all covenants under its credit agreements on September 30, 2012.

Cash balances and cash generated from continuing operations, supplemented by borrowings under credit facilities and/or in the capital markets, if needed, is expected to be sufficient to fund our operations for at least the next 12 months.

The table below summarizes key components of cash flow provided by operating activities from continuing operations:

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Net earnings	\$459	\$520	\$1,445	\$1,570
Net earnings from discontinued operations	—	—	—	(34)
Non-cash items ⁽¹⁾	219	286	488	665
Retiree benefit funding less than (in excess of) expense	(236)	24	(99)	(416)
Trade working capital change	370	118	(251)	(759)
Cash provided by continuing operations	\$812	\$948	\$1,583	\$1,026

(1) Includes depreciation and amortization, stock-based compensation expense, and deferred income taxes

Free Cash Flow from Continuing Operations

Free cash flow from continuing operations is defined as cash provided by operating activities from continuing operations less capital expenditures. We believe free cash flow from continuing operations is a useful measure for investors to consider. Free cash flow is a key factor in our planning for and consideration of strategic acquisitions, stock repurchases and the payment of dividends.

Free cash flow from continuing operations is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

The table below reconciles cash provided by continuing operations to free cash flow from continuing operations:

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Cash provided by continuing operations	\$812	\$948	\$1,583	\$1,026
Less: capital expenditures	(64)	(109)	(196)	(326)
Free cash flow provided by continuing operations	\$748	\$839	\$1,387	\$ 700

Cash Flows

The following is a discussion of our major operating, investing and financing cash flows from continuing operations for the nine months ended September 30, 2012 and 2011, as classified in the condensed consolidated statements of cash flows in Part I, Item 1.

Operating Activities

For the nine months ended September 30, 2012, cash provided by continuing operations was \$1.6 billion, as compared with \$1.0 billion in the same period in 2011. The increase reflects lower working capital in 2012 and higher pension contributions in 2011.

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Investing Activities

Cash provided by investing activities from continuing operations for the nine months ended September 30, 2012, was \$61 million, as compared with \$1.2 billion in the same period of 2011. The \$1.1 billion decrease in cash provided by investing activities from continuing operations was primarily due to the \$1.4 billion contribution received from the spin-off of the shipbuilding business in 2011, partially offset by maturities of short-term investments in the first quarter of 2012.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2012, was \$1.1 billion, as compared with \$2.6 billion in the same period of 2011. The \$1.5 billion decrease in net cash used in financing activities was primarily due to debt repayments of \$750 million in the first quarter 2011 and higher share repurchases in 2011.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

There have been no material changes to our critical accounting policies, estimates, or judgments from those discussed in our 2011 Annual Report on Form 10-K.

ACCOUNTING STANDARDS UPDATES

Accounting standards updates effective after September 30, 2012, are not expected to have a material effect on the company's consolidated financial position or results of operations.

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

This Form 10-Q and the information we are incorporating by reference contain statements, other than statements of historical fact, that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expect," "intend," "may," "could," "plan," "project," "forecast," "believe," "estimate," "outlook," "anticipate," "trends" and similar expressions generally identify these forward-looking statements. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to, those identified under Risk Factors in our Form 10-K for the year ended December 31, 2011, as well as those identified in this report under Part II, Item 1A and other important factors disclosed in this report and from time to time in our other filings with the SEC.

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. The forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

CONTRACTUAL OBLIGATIONS

On July 6, 2012, President Obama signed the Moving Ahead for Progress in the 21st Century Act. This Act includes a provision that increases the interest rates used to determine plan sponsors' pension contributions for required funding purposes. Based on the new interest rates released by the IRS, our required pre-tax pension contributions for 2013 through 2016 are expected to be reduced by \$1.5 billion in the aggregate, as compared to the amount disclosed in our 2011 Annual Report on Form 10-K. Although the required pension contributions are decreasing through 2016, we may elect to make voluntary contributions, depending upon plan funded status, tax planning or other factors. Our analysis indicates that required pension contributions would rise subsequent to 2016, resulting in little net impact to cumulative required contributions over a 10-year period.

There have been no additional material changes to our contractual obligations from those discussed in our 2011 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our market risks from those discussed in our 2011 Annual Report on Form 10-K.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934, as amended) and have concluded that, as of September 30, 2012, these controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

During the three months ended September 30, 2012, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have provided information about certain legal proceedings in which we are involved in Note 7 to the condensed consolidated financial statements in Part I, Item 1 and in our 2011 Annual Report on Form 10-K.

We are a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary relief. United States (U.S.) government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from future U.S. government contracts or involving the loss of export privileges for the company or one or more of its components. Suspension or debarment could have a material adverse effect on the company because of the company's reliance on government contracts and authorizations. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to us to date and other than as noted in Note 7 to the condensed consolidated financial statements, we do not believe that the outcome of any matter pending against the Company, is likely to have a material adverse effect on the company's consolidated financial position as of September 30, 2012, or its annual results of operations or cash flows. For further information on the risks we face from existing and future investigations, lawsuits, claims and other legal proceedings, please see Risk Factors in Part I, Item 1A, of our 2011 Annual Report on Form 10-K.

Item 1A. Risk Factors

The following is an update to a risk factor described in our 2011 Annual Report on Form 10-K and should be read in conjunction with the risk factors therein.

Significant delays or reductions in appropriations for our programs and federal government funding more broadly may negatively impact our business and programs and could have a material adverse effect on our financial position, results of operations or cash flows.

The funding of U.S. government programs is subject to an annual Congressional budget authorization and appropriation processes. For many programs, Congress appropriates funds on a fiscal year basis even though the program performance period may extend typically several years. Consequently, programs are often partially funded initially and additional funds are committed only as Congress makes further appropriations. If we incur costs in excess of funds committed on a contract, we may be at risk for reimbursement of those costs until additional funds are appropriated. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced as part of the annual budget process ultimately approved by Congress or in separate supplemental appropriations or continuing resolutions, as applicable. The impact, severity and duration of the current U.S. economic situation and economic plans adopted or to be adopted by the U.S. government, along with pressures on, and uncertainty surrounding, the federal budget, could adversely affect the funding for individual programs and delay purchasing or payment decisions by our customers. In the event that government funding for any of our significant programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the U.S. government or the prime contractor, which could have a material adverse effect on our financial position, results of operations, and/or cash flows.

In August 2011, Congress enacted the Budget Control Act of 2011 (the Budget Control Act) which, while raising the existing statutory limit on the amount of permissible federal debt, also committed the U.S. government to significantly reducing the federal deficit over ten years. The Budget Control Act established caps on discretionary spending through 2021, reducing federal spending by approximately \$940 billion relative to the fiscal year 2012 Presidential Budget submission. It also established a Joint Committee of Congress (the Joint Committee) that was responsible for identifying an additional \$1.2 to \$1.5 trillion in deficit reductions by November 23, 2011. The Joint Committee was unable to identify the additional deficit reductions by this deadline thereby triggering a second provision of the Budget Control Act called "sequestration," which calls for very substantial automatic spending cuts split between defense and non-defense programs scheduled to start in 2013 and continue over a nine-year period. While members of Congress are discussing various options to prevent or defer sequestration and the automatic spending cuts scheduled to begin in January 2013, we cannot predict whether any such efforts will succeed.

We are unable to predict the impact that either identified or automatic cuts would have on funding for our individual programs. Long-term funding for certain programs in which we participate is likely to be reduced, delayed or canceled. In addition, these cuts could adversely affect the viability of the suppliers and

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subcontractors under our programs. While we believe that our business is well-positioned in areas that the Department of Defense (DoD) has indicated are areas of focus for future defense spending, the impact of the Budget Control Act remains uncertain and our business and industry could be materially adversely affected. In January 2012, the Secretary of Defense announced a number of program changes and cancellations that are scheduled to take place over the next several years, in part to comply with certain provisions of the Budget Control Act. Certain of these program changes and cancellations are expected to have an impact on programs in which we participate.

The President's Budget for Fiscal Year 2013 has been submitted to Congress and includes a slight decline from fiscal year 2012 levels. Although Congress recently passed a continuing resolution to fund U.S. Government operations for the first six months of fiscal year 2013 through March 27, 2013, it is unclear whether annual appropriations bills will be passed during fiscal year 2013. The ongoing Congressional budget process has been marked by significant debate within the government regarding fiscal year 2013 defense spending, and the upcoming general election in November may also generate significant dialogue around the federal deficit and potential cuts in government spending. Budget decisions made in this environment could have long-term consequences for our company and the entire defense industry. In particular, should sequestration as currently mandated be implemented in January 2013, absent any other changes, it would have serious negative consequences for the security of our country, the defense industrial base, including Northrop Grumman, and the customers, employees, suppliers, investors, and communities that rely on the companies in the defense industrial base. There continues to be much uncertainty regarding how sequestration would be implemented, if it were to go into effect. There are many variables in how the law could be applied that make it difficult to determine the specific impacts; however, we expect that sequestration, as currently provided for under the Budget Control Act, would result in lower revenues, profits and cash flows for our company. Such circumstances may also result in an impairment of our goodwill.

There are no additional material changes to the risk factors previously disclosed in our 2011 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities – The table below summarizes our repurchases of common stock during the three months ended September 30, 2012:

Period	Number of Shares Purchased⁽¹⁾	Average Price Paid per Share⁽²⁾	Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (\$ in millions)
July 1 through July 31, 2012	1,558,700	\$63.82	1,558,700	\$1,046
August 1 through August 31, 2012	1,158,144	67.44	1,158,144	967
September 1 through September 30, 2012	1,635,819	66.82	1,635,819	1,963
Total	4,352,663	\$65.91	4,352,663	\$1,963

(1) In June 2010, our board of directors authorized a share repurchase program of up to \$2.0 billion of the Company's common stock. Following this initial authorization, our board of directors increased the remaining repurchase authorization to \$4.0 billion in April 2011 and again increased the remaining repurchase authorization to \$2.0 billion in September 2012. As of September 30, 2012, our repurchases under the program totaled \$3.4 billion, and \$2.0 billion remained under this share repurchase authorization. The repurchase program will expire when we have used all authorized funds for repurchase.

(2) Includes commissions paid.

Share repurchases take place at management's discretion under pre-established, non-discretionary programs, depending on market conditions, in the open market, or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase program authorizations.

NORTHROP GRUMMAN CORPORATION

In connection with the spin-off of the former shipbuilding business (see Note 3 in Part I, Item 1), we obtained a Private Letter Ruling from the Internal Revenue Service that generally limits our share repurchases to approximately 88 million shares within two years of the spin-off. The limitation expires on March 31, 2013. Since the spin-off we have repurchased approximately 54 million shares of our common stock, and as of September 30, 2012, approximately 34 million shares remained under the Private Letter Ruling limitation. Cash available from unusual transactions, such as the disposition of significant assets, should they arise, can be used to repurchase additional shares.

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

Item 4. Mine Safety Disclosures

No information is required in response to this item.

Item 5. Other Information

No information is required in response to this item.

NORTHROP GRUMMAN CORPORATION

Item 6. Exhibits

- 2.1 Agreement and Plan of Merger among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.) and Titan Merger Sub Inc., dated March 29, 2011 (incorporated by reference to Exhibit 10.1 to Form 8-K dated March 29, 2011 and filed April 4, 2011)
- 2.2 Separation and Distribution Agreement dated as of March 29, 2011, among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.), Huntington Ingalls Industries, Inc., Northrop Grumman Shipbuilding, Inc. and Northrop Grumman Systems Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K dated March 29, 2011 and filed April 4, 2011)
- 10.1 364-Day Credit Agreement dated as of September 4, 2012, among Northrop Grumman Corporation, as Borrower; Northrop Grumman Systems Corporation, as Guarantor; the Lenders party thereto; JPMorgan Chase Bank, N.A., as Administrative Agent; and Citibank, N.A., The Royal Bank of Scotland plc and Wells Fargo Bank, National Association, as Syndication Agents. (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 4, 2012 and filed September 7, 2012)

*+10.2 Northrop Grumman ERISA Supplemental Plan (Amended and Restated Effective as of July 20, 2012)

*+10.3 Northrop Grumman Supplemental Plan 2 (Amended and Restated Effective as of July 20, 2012)

*+10.4 Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (Amended and Restated Effective July 20, 2012)

*+10.5 Summary of Terms of RPSR Grant Modification for James F. Pitts

+10.6 Retirement and Separation Agreement dated July 23, 2012 between Northrop Grumman Systems Corporation and Gary W. Ervin (incorporated by reference to Exhibit 10.4 to Form 10-Q filed July 25, 2012)

*12(a) Computation of Ratio of Earnings to Fixed Charges

* 15 Letter from Independent Registered Public Accounting Firm

*31.1 Rule 13a-14(a)/15d-14(a) Certification of Wesley G. Bush (Section 302 of the Sarbanes-Oxley Act of 2002)

*31.2 Rule 13a-14(a)/15d-14(a) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)

**32.1 Certification of Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**32.2 Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*101 Northrop Grumman Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language); (i) the Condensed Consolidated Statements of Earnings and Comprehensive Income, (ii) Condensed Consolidated Statements of Financial Position, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, and (v) Notes to Condensed Consolidated Financial Statements

+ Management contract or compensatory plan or arrangement

* Filed with this report

** Furnished with this report

NORTHROP GRUMMAN CORPORATION

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)

By:

/s/ Kenneth L. Bedingfield

Kenneth L. Bedingfield
Corporate Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)

Date: October 23, 2012

NORTHROP GRUMMAN

ERISA SUPPLEMENTAL PLAN

(Amended and Restated Effective as of July 20, 2012)

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INTRODUCTION

The Northrop Grumman ERISA Supplemental Plan (the "Plan"), formerly known as the Northrop Corporation ERISA Supplemental Plan 1, is hereby amended and restated effective as of July 20, 2012. This restatement amends the January 1, 2012 restatement of the Plan and includes changes that apply to Grandfathered Amounts.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

ARTICLE I

Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 1.02 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
- 1.03 Code. The Internal Revenue Code of 1986, as amended.
- 1.04 Company. The Company as designated in the Pension Plans.
- 1.05 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
- 1.06 Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

- 1.07 Participant. Any employee who (a) is eligible for benefits under one or both Pension Plans, (b) meets the eligibility requirements of Section 2.02 of this Plan and (c) and has not received full payment under the Plan.
- 1.08 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.
- 1.09 Plan. The Northrop Grumman ERISA Supplemental Plan, formerly known as the Northrop Corporation ERISA Supplemental Plan 1.
- 1.10 Pension Plan Benefits. This term is defined in Section 2.08 of this Plan.
- 1.11 Pension Plan and Pension Plans. Any of the following:
- (a) The Northrop Grumman Retirement Plan
 - (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
 - (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
 - (d) The Northrop Grumman Electronics Systems – Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
 - (e) The Northrop Grumman Electronics Systems – Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

- 1.12 Separation from Service or Separates from Service. A "separation from service" within the meaning of Code section 409A.
- 1.13 Termination of Employment. Complete termination of employment with the Affiliated Companies.
- (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
 - (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.

ARTICLE II

Eligibility for and Amount of Benefits

- 2.01 Purpose. The purpose of this Plan is simply to restore to employees of the Company the benefits they lose under the Pension Plans as a result of the benefit limits in Code section 415, as amended, or any successor section (“section 415”), as the benefit limits are described in the applicable Pension Plan.
- 2.02 Eligibility. Each Participant is eligible to receive a benefit under this Plan if:
- (a) he or she has vested in benefits under one or more of the Pension Plans;
 - (b) he or she has vested benefits reduced because of the application of section 415;
 - (c) he or she is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Plan; and
 - (d) he or she is not a “Participant” in the Charles H. Noski Executive Retirement Plan as that term is defined under that plan.
- 2.03 Amount of Benefit. The benefit payable from the Company under this Plan to a Participant will equal the retirement benefit, if any, which would have been payable to the Participant under the terms of a Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.

Benefits under this Plan will only be paid to supplement benefit payments actually made from a Pension Plan. If benefits are not payable under a Pension Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Plan with respect to such Pension Plan.

In no event, however, (1) will this Plan pay any amount of a Participant's retirement benefit, if any, attributable to the “2000 Ad Hoc Increase for Retirees” Appendix added to certain of the Company’s tax-qualified plans pursuant to the Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Board of Directors resolution adopted May 17, 2000.

The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Plan:

- (1) any payment authorized by the Compensation Committee that is (a) calculated pursuant to the method for determining a bonus amount under the Annual

Incentive Plan (AIP) for a given year, and (b) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

(2) any award payment under the Northrop Grumman Long-Term Incentive Cash Plan.

2.04 Preretirement Surviving Spouse Benefit. This Section only applies to Grandfathered Amounts.

Preretirement surviving spouse benefits will be payable under this Plan on behalf of a Participant if such Participant's surviving spouse is eligible for preretirement surviving spouse benefits payable from a Pension Plan. The benefit payable will be the amount which would have been payable under the Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.

No benefit will be payable under this Plan with respect to a spouse after the death of that spouse.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.05 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts.

The Company will determine the form and timing of benefit payments in its sole discretion. However, for payments made to supplement those of a particular Pension Plan, the Company will only select among the options available under that Pension Plan, and using the same actuarial adjustments used in that Pension Plan except in cases of lump sums.

Whenever the present value of the amount payable under the Plan does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.08 below. (See Section 2.09 for the rule that applies as of January 1, 2008).

No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a Pension Plan for Participants over age 70-1/2.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.06 Beneficiaries and Spouses. This Section only applies to Grandfathered Amounts.

If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

The Participant's spouse will be the spouse as determined under the underlying Pension Plan.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.07 Plan Termination. No further benefits may be earned under this Plan with respect to a particular Pension Plan after the termination of such Pension Plan.

2.08 Pension Plan Benefits. The term "Pension Plan Benefits" generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Pension Plan. However, this Plan is only intended to remedy pension reductions caused by the operation of section 415 and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term "Pension Plan Benefits" shall be deemed to mean the benefits that would have been actually payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Pension Plan. In such a case, the Pension Plan Benefits will be deemed to refer to the payments that would have been made from the Pension Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).
- (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.
- (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant's benefits to a third party on behalf of or with respect to a Participant.

2.09 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.
- (b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

2.10 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.
- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

2.11 Special Tax Distribution. On the date a Participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This payment will reduce the Participant's future benefit payments under the Plan on an actuarial basis.

ARTICLE III

Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix A and Appendix B for the distribution rules that apply to other benefits earned under the Plan.

- 3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.08, this Article does not apply to active employees (as defined in Section 3.04) in cases where benefits are automatically payable in lump sum form under Article II.
- 3.02 Retirees Election. Participants and Participants' beneficiaries already receiving monthly benefits under the Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.
- (a) The election must be made within a 60-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 60-day period in instances where the Company is unable to timely communicate with a particular payee.
 - (b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 60-day period.
 - (c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.

Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993.

- (d) If the person receiving payments as of the beginning of the 60-day period dies prior to making a lump sum election, his or her beneficiary, if any, may not make the lump sum election.
- (e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
- (f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 60-day period will be irrevocable. If no proper election has been made by the end of the 60-day period, payments will continue unchanged in the monthly form that had previously been applicable.

- 3.03 Retirees Lump Sum. If a retired Participant or beneficiary makes a valid election under Section 3.02 within the 60-day period, monthly payments will continue in the previously applicable form for 12 months (assuming the payees live that long).
- (a) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.
 - (b) No lump sum payment will be made if:
 - (1) The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a form that does provide for survivor benefits but the Participant and the beneficiary die before the time the lump sum payment is due.
 - (c) The following rules apply where payment is being made in the form of a 10-year certain and continuous life annuity option:
 - (1) If the Participant is deceased at the commencement of the 60-day election period, the surviving beneficiary may not make the election if there are less than 13 months left in the 10-year certain period.
 - (2) If the Participant elects the lump sum and dies prior to the first of the 13th month:
 - (A) if the 10-year certain period has already ended, all monthly payments will cease at the Participant's death and no lump sum payment will be made;
 - (B) if the 10-year certain period ends after the Participant's death and before the beginning of the 13th month, monthly payments will end at the end of the 10-year certain period and no lump sum payment will be made; and
 - (C) if the 10-year certain period ends after the beginning of the 13th month, monthly payments will continue through the 12th month, and a lump sum payment will be made as of the first of the 13th month, equal to the present value of the remaining benefit payments.
- 3.04 Actives Election. Active Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

- (a) A Participant is considered to be “Active” under this Section if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 60-day period referred to in Section 3.02.
- (b) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
 - (1) Benefits payable to the Participant during his or her lifetime, and
 - (2) Survivor benefits (if any) payable to the Participant’s beneficiary, including preretirement death benefits (if any) payable to the Participant’s spouse.
- (c) An election does not become effective until the earlier of
 - (1) the Participant’s Termination of Employment, or
 - (2) the Participant’s death.

Before the election becomes effective, it may be revoked.

If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.

- (d) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
- (e) After a Participant has a Termination of Employment, no election can be made.
- (f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.
- (g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

3.05 Actives Lump Sum – Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:

- (1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
 - (2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form —
 - (A) with the survivor benefit equal to 50% of the Participant's benefit;
 - (B) with the Participant's spouse as the survivor annuitant;
 - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Retirement Plan; and
 - (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
- (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
- (c) No lump sum payment will be made if:
- (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
- (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
- (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.

3.06 Actives Lump Sum – Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04, has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) No monthly benefit payments will be made.
- (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
- (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.07 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.08 Calculation of Lump Sum. The factors to be used in calculating the lump sum are as follows:

Interest: Whichever of the following two rates that produces the smaller lump sum:

- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
- (2) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.

Mortality: the applicable mortality table that would be used to calculate a lump sum value for the benefit under the Northrop Grumman Retirement Plan.

Increase in Section 415 Limit: 4% per year.

Age: Age rounded to the nearest month on the date the lump sum is payable.

Variable Unit Values Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.

The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.

For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.

If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.

If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.

In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

In the case of a lump-sum under Section 3.07 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.08 are not used.

3.09 Spousal Consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

ARTICLE IV

Miscellaneous

4.01 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors,

whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Pension Plans to the extent this Plan pays Pension Plan Benefits to which Participants were entitled to or became entitled to under the Pension Plans.

4.02 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.

4.03 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.

Notwithstanding the foregoing, all or a portion of a Participant's benefit may be paid to another person as specified in a domestic relations order that the plan administrator determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

- (1) issued pursuant to a State's domestic relations law;
- (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and
- (4) meets such other requirements established by the plan administrator.

The plan administrator shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the plan administrator may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

4.04 Nonduplication of Benefits. This Section applies if, despite Section 4.03, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

Actuarial value will be determined using the factors and methodology described in Section 3.08 above (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.

In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

4.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

4.06 Construction. The Company shall have full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.

4.07 Governing Law. This Plan shall be governed by the law of the Commonwealth of Virginia, except to the extent superseded by federal law.

4.08 Actions By Company and Claims Procedures. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" shall apply in handling claims and appeals under this Plan.

4.09 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.

- 4.10 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.
- 4.11 2001 Reorganization. Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").
- (a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.
 - (b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.
 - (c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.
 - (d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.
 - (e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.
- 4.12 Liabilities Transferred to HII. Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII) to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 20th day of July, 2012.

NORTHROP GRUMMAN CORPORATION

By: /s/ Christopher McGee
Christopher McGee
Vice President, Compensation & Benefits

APPENDIX A – 2005-2007 TRANSITION RULES

This Appendix A provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- A.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant's selected benefit commencement date.
- A.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.
- (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
- (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
- (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
- (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

A.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

**APPENDIX B – POST 2007
DISTRIBUTION OF 409A AMOUNTS**

The provisions of this Appendix B shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix A addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- B.01 Time of Distribution. Subject to the special rules provided in this Appendix B, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.
- B.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant's death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- B.03 Forms of Distribution. Subject to the special rules provided in this Appendix B, a Participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.

If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

- B.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant's spouse commencing 90 days after the Participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant's vested retirement benefit based on a 100% joint and survivor annuity determined on the Participant's date of death. This benefit is also payable to a

Participant's domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

B.05 Actuarial Assumptions. Except as provided in Section B.06, all forms of payment under this Appendix B shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

B.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section B.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant's Separation from Service.
- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of a Participant's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
- (d) Present Value Calculation. The conversion of a Participant's retirement benefit into a lump sum payment and the present value calculations under this Section B.06 shall be based on the actuarial assumptions in effect under the Northrop Grumman Pension Plan for purposes of calculating lump sum amounts, and will

be based on the Participant's immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

B.07 Effect of Early Taxation. If the Participant's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

B.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section B.08 shall be paid in accordance with Code section 409A.

APPENDIX C – COMMITTEES AND APPOINTMENTS

Notwithstanding anything to the contrary in this Plan, effective October 25, 2011, the Chief Executive Officer of Northrop Grumman Corporation shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article IV of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

NORTHROP GRUMMAN
SUPPLEMENTAL PLAN 2
(Amended and Restated Effective as of July 20, 2012)

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The Northrop Grumman Supplemental Plan 2 (the "Plan") is hereby amended and restated effective as of July 20, 2012. This restatement amends the January 1, 2012 restatement of the Plan and includes changes that apply to Grandfathered Amounts.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

ARTICLE I

Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 1.02 Board of Directors. The Board of Directors of the Company.
- 1.03 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
- 1.04 Code. The Internal Revenue Code of 1986, as amended.
- 1.05 Company. Northrop Grumman Corporation.
- 1.06 Deferred Compensation Plan. The Northrop Grumman Deferred Compensation Plan and the Northrop Grumman Savings Excess Plan.
- 1.07 ERISA. The Employee Retirement Income Security Act of 1974, as amended.
- 1.08 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
- 1.09 Key Employee . An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key

Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

- 1.10 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program.
- 1.11 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.
- 1.12 Pension Plan.
- (a) The Northrop Grumman Pension Plan (subject to the special effective dates noted below for the following merged plans)
 - The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
 - The Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan (effective as of July 1, 2000)
 - The Grumman Pension Plan (effective as of July 1, 2003)
 - (b) The Northrop Grumman Electronic Systems – Space Division Consolidated Pension Plan (effective as of October 22, 2001)
 - (c) The Northrop Grumman Norden Systems Employee Retirement Plan (effective July 1, 2003)
- 1.13 Plan. The Northrop Grumman Supplemental Plan 2.
- 1.14 Program. One of the eligibility and benefit structures described in the Appendices.
- 1.15 Qualified Plan. The Northrop Grumman Pension Plan and Cash Balance Plans (as defined under the Northrop Grumman Pension Plan).
- 1.16 Separation from Service or Separates from Service. A "separation from service" within the meaning of Code section 409A.

1.17 Termination of Employment. Complete termination of employment with the Affiliated Companies.

- (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
- (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.

ARTICLE II

General Provisions

- 2.01 In General. The Plan contains a number of different benefit Programs which are set forth in the Appendices. The Appendices describe the eligibility conditions and the amount of benefits payable under the Programs. The Company, in its sole discretion, will determine all eligibility conditions, make all benefit determinations, and otherwise exercise sole authority to interpret the Plan and Programs.
- 2.02 Treatment of 2000 Ad Hoc Increases for Retirees. In no event, however, (1) will this Plan pay any amount of a Participant's retirement benefit, if any, attributable to the "2000 Ad Hoc Increase for Retirees" Appendix added to certain of the Company's tax-qualified plans pursuant to the Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Board of Directors resolution adopted May 17, 2000.
- 2.03 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts. The Company will determine the form and timing of benefit payments in its sole discretion unless particular rules regarding the form and timing of benefit payments are set forth in a Program or where a lump sum election under Article III is applicable.
- (a) For payments made to supplement those of a particular tax-qualified retirement or savings plan, the Company will only select among the options available under that plan, using the same actuarial adjustments used in that plan, except in cases of lump sums.
 - (b) Whenever the present value of the amount payable under a particular Program does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.06 below (See Section 2.05 for the rule that applies as of January 1, 2008).
 - (c) No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a qualified retirement plan for Participants over age 70½, or for any other reason.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

2.04 Beneficiaries and Spouses. This Section only applies to Grandfathered Amounts. If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

- (a) If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
- (b) With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant's spouse will be the spouse as determined under the underlying tax-qualified plan. Otherwise, the Participant's spouse will be determined by the Company in its sole discretion.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

2.05 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts under a Program within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.
- (b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts under a Program within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

2.06 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.
- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

- 2.07 Special Tax Distribution. On the date a Participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This payment will reduce the Participant's future benefit payments under the Plan on an actuarial basis.
- 2.08 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Company's tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled to or became entitled to under the tax-qualified plans.

2.09 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.

2.10 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.

Notwithstanding the foregoing, all or a portion of a Participant's benefit may be paid to another person as specified in a domestic relations order that the plan administrator determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

- (1) issued pursuant to a State's domestic relations law;
- (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and
- (4) meets such other requirements established by the plan administrator.

The plan administrator shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the plan administrator may consider the rules applicable to the "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

2.11 Nonduplication of Benefits. This Section applies if, despite Section 2.10, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

- (a) Actuarial value will be determined using the factors and methodology described in Section 3.06 below (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.

(b) In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

2.12 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

2.13 Construction. The Company shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Company's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or beneficiary. The Company shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

2.14 Governing Law. This Plan shall be governed by the law of the Commonwealth of Virginia, except to the extent superseded by federal law.

2.15 Actions by Company and Claims Procedures. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board of Directors may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" shall apply in handling claims and appeals under this Plan.

2.16 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.

2.17 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

ARTICLE III

Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix 1 and Appendix 2 for the distribution rules that apply to other benefits earned under the Plan.

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.05, this Article does not apply to employees in cases where benefits under a particular Program are automatically payable in lump sum form under Article II. This Article will not apply if a particular Program so provides.

3.02 Election. Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

- (a) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
 - (1) Benefits payable to the Participant during his or her lifetime, and
 - (2) Survivor benefits (if any) payable to the Participant's beneficiary, including preretirement death benefits (if any) payable to the Participant's spouse.
- (b) An election does not become effective until the earlier of:
 - (1) the Participant's Termination of Employment, or
 - (2) the Participant's death.
- (c) Before the election becomes effective, it may be revoked.
- (d) If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.
- (e) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
- (f) After a Participant has a Termination of Employment, no election can be made.
- (g) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.

- (h) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

3.03 Lump Sum—Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
 - (1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
 - (2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form—
 - (A) with the survivor benefit equal to 50% of the Participant's benefit;
 - (B) with the Participant's spouse as the survivor annuitant;
 - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Grumman Retirement Plan; and
 - (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
- (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
- (c) No lump sum payment will be made if:

- (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
- (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
- (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.

3.04 Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) No monthly benefit payments will be made.
- (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
- (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.05 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.06 Calculation of Lump Sum.

- (a) The factors to be used in calculating the lump sum are as follows:
- (1) Interest: Whichever of the following two rates that produces the smaller lump sum:
 - (A) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
 - (B) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.
 - (2) Mortality: the applicable mortality table, which would be used to calculate a lump sum value for the benefit under the Pension Plans.
 - (3) Increase in Section 415 Limit: 4% per year.
 - (4) Age: Age rounded to the nearest month on the date the lump sum is payable.
 - (5) Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.
- (b) The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.
- (1) For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.
 - (2) If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

- (3) If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.
 - (4) If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.
 - (5) In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.
- (c) In the case of a lump-sum under Section 3.05 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.06 are not used.

3.07 Spousal consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 20th day of July, 2012.

NORTHROP GRUMMAN CORPORATION

By: /s/ Christopher McGee
Christopher McGee
Vice President, Compensation & Benefits

APPENDIX 1 – 2005-2007 TRANSITION RULES

This Appendix 1 provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- 1.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant's selected benefit commencement date.
- 1.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.
- (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
- (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
- (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
- (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

- 1.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

APPENDIX 2 – POST 2007
DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix 2 shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix 1 addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- 2.01 Time of Distribution. Subject to the special rules provided in this Appendix 2, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.
- 2.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant's death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- 2.03 Forms of Distribution. Subject to the special rules provided in this Appendix 2, a Participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.
- If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
- 2.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant's spouse commencing 90 days after the Participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant's vested retirement benefit based on a 100% joint

and survivor annuity determined on the Participant's date of death. This benefit is also payable to a Participant's domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

2.05 Actuarial Assumptions. Except as provided in Section 2.06 of this Appendix 2, all forms of payment under this Appendix 2 shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

2.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section 2.02 of this Appendix 2, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant's Separation from Service.
- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of a Participant's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.

(d) Present Value Calculation. The conversion of a Participant's retirement benefit into a lump sum payment and the present value calculations under this Section 2.06 of this Appendix 2 shall be based on the actuarial assumptions in effect under the Northrop Grumman Pension Plan for purposes of calculating lump sum amounts, and will be based on the Participant's immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

2.07 Effect of Early Taxation. If the Participant's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

2.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section 2.08 of this Appendix 2 shall be paid in accordance with Code section 409A.

APPENDIX 3 – COMMITTEES AND APPOINTMENTS

Notwithstanding anything to the contrary in this Plan, effective October 25, 2011, the Chief Executive Officer of Northrop Grumman Corporation shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article II of the Plan), other than the "Forfeiture of Benefits" provisions in Sections F.10, G.10 and I.10 of the Plan which Sections shall continue to be administered by the Compensation Committee or its delegate, and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

**Severance Plan for
Elected and Appointed Officers of
Northrop Grumman Corporation
As amended and restated effective July 20, 2012**

1. Purpose of Plan. The purpose of the Plan is to provide severance benefits for eligible elected and appointed officers of Northrop Grumman Corporation who reside and work in the United States. The terms of this amended and restated Plan are effective as of July 20, 2012.

2. Definitions. The terms defined in this section shall have the meaning given below:

- (a) **“Committee”** means the Compensation Committee of the Board of Directors of the Company or any successor to the Committee.
- (b) **“Code”** means the Internal Revenue Code of 1986, as amended.
- (c) **“Company”** means Northrop Grumman Corporation.
- (d) **“CPC”** means the Corporate Policy Council.
- (e) **“Disability”** means any disability of an Officer recognized as a disability for purposes of the Company’s long-term disability plan, or similar plan later adopted by the Company in place of such plan.
- (f) **“Key Employee”** means an employee treated as a “specified employee” as of his Separation from Service under Code section 409A(a)(2)(B)(i) of the Company or its affiliate (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Officers are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.
- (g) **“Officer”** means an elected or appointed officer of Northrop Grumman Corporation, other than the Company’s Chief Executive Officer, who resides and works in the United States.
- (h) **“Plan”** means this Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation, as it may be amended from time to time.
- (i) **“Qualifying Termination”** means any one of the following (i) an Officer’s involuntary termination of employment with the Company, other than Termination for Cause or mandatory retirement, or (ii) an Officer’s election to terminate employment with the Company in lieu of accepting a downgrade to a non-Officer position or status. “Qualifying Termination” does not include any change in the Officer’s employment status due to any transfer within the Company or to an affiliate, or to a purchaser of assets or a portion of the business of the Company or an affiliate in connection with the purchase, Disability, voluntary termination or normal retirement.
- (j) **“Release”** means the Company’s Confidential Separation Agreement and General Release as in effect at the time of the Officer’s termination of employment.
- (k) **“Separation from Service”** or **“Separate from Service”** means a “separation from service” within the meaning of Code section 409A.

- (l) **“Termination for Cause”** means an Officer’s termination of employment with the Company because of:
 - (i) The continued failure by the Officer to devote reasonable time and effort to the performance of his duties (other than a failure resulting from the Officer’s incapacity due to physical or mental illness) after written demand for improved performance has been delivered to the Officer by the Company which specifically identifies how the Officer has not devoted reasonable time and effort to the performance of his duties;
 - (ii) The willful engaging by Officer in misconduct which is substantially injurious to the Company, monetarily or otherwise; or
 - (iii) The Officer’s conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability).

A Termination for Cause shall not include a termination attributable to:

- (i) Bad judgment or negligence on the part of the Officer other than habitual negligence; or
- (ii) An act or omission believed by the Officer in good faith to have been in or not opposed to the best interests of the Company and reasonably believed by the Officer to be lawful.

3. Eligibility Requirements.

- (a) Benefits under the Plan are subject to the Company’s sole discretion and approval.
- (b) To be considered to receive benefits under the Plan an Officer must meet the following conditions:
 - (i) The Officer must experience a Qualifying Termination that results in termination of employment. If, before termination of employment occurs due to the Qualifying Termination event, the Officer voluntarily quits, retires, or experiences a Termination for Cause, the Officer will not receive benefits under this Plan.
 - (ii) The Officer must sign the Release. The Company’s current Confidential Separation Agreement and General Release is attached hereto as Exhibit A, however the Company may amend and make changes to this agreement at any time (with such amendments including, without limitation, any amendments that the Company may determine to be necessary or advisable to help ensure that the agreement is enforceable to the fullest extent permissible under applicable law at the time of the Officer’s termination of employment).

4. Severance Benefits. Upon the Qualifying Termination of any eligible Officer, the terminated Officer shall be entitled to the following benefits under the Plan: (a) a lump-sum severance cash payment, (b) an extension of the Officer’s existing medical and dental coverage, (c) a prorated annual cash bonus payment, and (d) certain other fringe benefits.

- (a) Lump-sum Cash Severance Payment. The designated Appendix describes the lump sum severance benefit available to the Officer.
- (b) Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer’s medical and dental benefits for the period of time following the Officer’s termination

date that is specified in the designated Appendix. Such continuation coverage shall run concurrently with COBRA continuation coverage (or similar state law). The Officer must continue to pay his portion of the cost of this coverage with after-tax dollars. If rates for active employees increase during this continuation period, the contribution amount will increase proportionately. Also, if medical and dental benefits are modified, terminated or changed in any way for active employees during this continuation period the Officer will also be subject to such modification, termination or change. Following the continuation period specified in the designated Appendix the Officer will be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period (typically 18 months) at normal COBRA rates. The unreimbursed COBRA period (*e.g.*, the period when the Officer must pay full COBRA rates in order to receive COBRA benefits) starts the first day of the month following the end of the continuation period specified in the designated Appendix.

Example: A Non-CPC Officer receives a layoff notice on June 15, 2004, and his last day of work is June 30, 2004. The Officer's 18-month COBRA period commences July 1, 2004. The Officer will continue to receive medical and dental coverage from July 1, 2004 through June 30, 2005, as long as the Officer continues to pay the appropriate contribution. Full COBRA rates will apply to the Officer from July 1, 2005 until the end of the remaining COBRA period on December 31, 2005.

If the Officer is not covered by medical and dental benefits at the time of his termination, this section 4(b) will not apply and no continuation coverage will be offered. No health or welfare benefits other than medical and dental will be continued pursuant to the Plan, including but not limited to disability benefits.

The medical and dental benefits to be provided or payments to be made under this section 4(b) shall be reduced to the extent that the Officer is eligible for benefits or payments for the same occurrence under another employer sponsored plan to which the Officer is entitled because of his employment subsequent to the Qualifying Termination.

To the extent the benefits under this section 4(b) are, or ever become, taxable to the Officer and to the extent the benefits continue beyond the period in which the Officer would be entitled (or would, but for the Plan, be entitled) to COBRA continuation coverage if the Officer elected such coverage and paid the applicable premiums, the Company shall administer such continuation of coverage consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv):

- (i) Officer's eligibility for benefits in one year will not affect Officer's eligibility for benefits in any other year;
- (ii) Any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and
- (iii) Officer's right to benefits is not subject to liquidation or exchange for another benefit.

In the event the preceding sentence applies and the Officer is a Key Employee, provision of these benefits after the COBRA period shall commence on the first day of the seventh month following the Officer's Separation from Service (or, if earlier, the first day of the month after the Officer's death).

- (c) Company Performance Related Payment. The Officer will be eligible for a severance payment equal to a pro-rata portion of the bonus he or she would have received under the Company annual incentive plan in which he or she was a participant for the year in which the Qualifying Termination occurred, in addition to the lump-sum cash severance payment described in

section 4(a). For this purpose, the pro-rated bonus (if any) will be based on the applicable annual incentive plan payout formula, with any applicable individual performance factor set at 1.00, prorated from the beginning of the performance period (January 1st) to the Officer's date of termination. The severance payment contemplated by this Section 4(c) will be paid when the annual bonuses are paid to active employees between February 15 and March 15 of the year following termination. Notwithstanding anything to the contrary in this section 4(c), if the Officer's bonus opportunity for the fiscal year in which his or her termination occurs is covered by the Company's Incentive Compensation Plan (or similar successor bonus program designed to comply with the performance-based compensation exception under Section 162(m) of the Code), then the Officer's severance payment pursuant to this section 4(c) shall not exceed the maximum bonus the Officer would have been entitled to receive under the Company's Incentive Compensation Plan for that fiscal year, assuming the Officer had been employed through the date bonuses are paid under such plan for that year, and otherwise calculated under the terms of such plan based on actual performance for that fiscal year (but without giving effect to any discretion of the plan administrator to reduce the bonus amount from the maximum otherwise determined in accordance with such plan).

- (d) Other Fringe Benefits. All reimbursements will be within the limits established in the Executive Perquisite Program. These perquisites will cease as of the date of termination except for the following:
- (i) Financial Planning. If an Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees as specified in the designated Appendix. For these purposes, "financial planning reimbursement" includes any income tax preparation fee reimbursement the Officer may be entitled to under the financial planning reimbursement terms and conditions applicable to the Officer at the time of termination. The financial planning (including income tax preparation fee) reimbursements contemplated by the Appendices are subject to any other applicable limitations that may apply under the financial planning reimbursement terms and conditions applicable to the Officer at the time of termination (for example, and without limitation, annual caps on amounts that may be used in connection with income tax preparation). All such reimbursements pursuant to this section 4(d)(i) shall be administered consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv): (1) Officer's eligibility for benefits in one year will not affect Officer's eligibility for benefits in any other year; (2) any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and (3) Officer's right to benefits is not subject to liquidation or exchange for another benefit. In addition, no reimbursements shall be made to an Officer who is a Key Employee for six months following the Officer's Separation from Service.
 - (ii) Outplacement Service. The Officer will be reimbursed for the cost of reasonable outplacement services provided by the Company's outplacement service provider for services provided within one year after the Officer's date of termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Officer's base salary as of the date of termination. All services will be subject to the current contract with the provider, and all such expenses shall be reimbursed as soon as practicable, but in no event later than the end of the year following the year the Officer Separates from Service.
- (e) Time and Form of Payment. The severance benefits under section 4(a) will be paid to the eligible Officer in a lump sum as soon as practicable following the Officer's Separation from

Service, but in no event beyond thirty (30) days from such date, provided the Officer signs the Release within twenty one (21) days following the Officer's Separation from Service. Notwithstanding the foregoing, if the Officer is a Key Employee, the lump sum payment shall be made on or within thirty (30) days after the first day of the seventh month following the Officer's Separation from Service (or, if earlier, the first day of the month after the Officer's death), provided the Officer signs the Release within twenty-one (21) days following the Officer's Separation from Service. This amount will be paid after all regular taxes and withholdings have been deducted. No payment made pursuant to the Plan is eligible compensation under any of the Company's benefit plans, including without limitation, pension, savings, or deferred compensation plans.

5. Limitation of Plan Benefits. Notwithstanding anything contained in this Plan to the contrary, if upon or following a change in the "ownership or effective control" of the Company or in the "ownership of a substantial portion of the assets" of the Company (each within the meaning of Section 280G of the Code), the tax imposed by Section 4999 of the Code or any similar or successor tax (the "Excise Tax") applies, solely because of such transaction, to any payments, benefits and/or amounts received by the Officer pursuant to the Plan or otherwise, including, without limitation, any amounts received, or deemed received within the meaning of any provision of the Code, by the Officer as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Officer under any of the Company's incentive plans, including without limitation, the 2001 Long-Term Incentive Stock Plan and the 1993 Long Term Incentive Stock Plan (collectively, the "Total Payments"), then the Total Payments shall be reduced (but not below zero) so that the maximum amount of the Total Payments (after reduction) shall be one dollar (\$1.00) less than the amount which would cause the Total Payments to be subject to the Excise Tax; provided that such reduction to the Total Payments shall be made only if the total after-tax benefit to the Officer is greater after giving effect to such reduction than if no such reduction had been made. If such a reduction is required, the Company shall reduce or eliminate the Total Payments by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax. The preceding provisions of this section 5 shall take precedence over the provisions of any other plan, arrangement or agreement governing the Officer's rights and entitlements to any benefits or compensation.

6. Offset for Other Benefits Received. The benefits under the Plan are in lieu of, and not in addition to, any other severance or separation benefits for which the Officer is eligible under any Company plan, policy or arrangements (including but not limited to, severance benefits provided under any employment agreement, retention incentive agreement, or similar benefits under any individual change in control agreements, plans, policies, arrangements and change in control agreements of acquired companies or business units) (collectively, "severance plans"); provided that if the Officer is otherwise entitled to receive benefits under the Plan and severance benefits under the Northrop Grumman Corporation Change-In-Control Severance Plan (version January 2010 or later) and/or a Northrop Grumman Corporation Special Agreement (version January 2010 or later), benefits shall be paid under such Change-In-Control Severance Plan and/or Special Agreement rather than under the Plan. If an Officer receives any benefit under any severance plan, such benefit shall cause a corresponding reduction in benefits under this Plan. If, despite any release that the Officer signs in connection with the Plan, such Officer is later awarded and receives benefits under any other severance plan(s), any benefits that the Officer receives under the Plan will be treated as having been received under those other severance plans for purposes of calculating total benefits received under those other severance plans (that is, benefits under those other severance plans will be reduced by amounts received under the Plan).

7. Administration. The Plan shall be administered by the Chief Human Resources Officer of the Company (the “administrator”). The administrator has sole and absolute discretion to interpret the terms of the Plan, eligibility for benefits, and determine questions of fact. The administrator may delegate any of his duties or authority to any individual or entity. Authority to hear appeals has been delegated to the corporate Severance Plan Review Committee.

8. Claims and Appeals Procedures.

Claims Procedure. If an Officer believes that he or she is entitled to benefits under the Plan and has not received them, the Officer or his authorized representative (each, a “claimant”) may file a claim for benefits by writing to the Chief Human Resources Officer, in care of the Company. The letter must state the reason why the claimant believes the Officer is entitled to benefits, and the letter must be received no later than 90 days after the Officer’s termination of employment, or 90 days after a payment was due, whichever comes first.

If the claim is denied, in whole or in part, the claimant will receive a written response within 90 days. This response will include (i) the reason(s) for the denial, (ii) reference(s) to the specific Plan provisions on which denial is based, (iii) a description of any additional information necessary to perfect the claim, and (iv) a description of the Plan’s claims and appeals procedures. In some cases more than 90 days may be needed to make a decision, in which case the claimant will be notified prior to the expiration of the 90 days that more time is needed to review the claim and the date by which the Plan expects to render the decision. In no event will the extension be for more than an additional 90 days.

Appeal of Denied Claim. The claimant may appeal a denied claim by filing an appeal with the corporate Severance Plan Review Committee within 60 days after the claim is denied. The appeal should be sent to the Severance Plan Review Committee c/o the Company. As part of the appeal process the claimant will be given the opportunity to submit written comments and information and be provided, upon request and free or charge, with copies of documents and other information relevant to the claim. The review on appeal will take into account all information submitted on appeal, whether or not it was provided for in the initial benefit determination. A decision will be made on the appeal within 60 days, unless additional time is needed. If more time is needed, the claimant will be notified prior to the expiration of the 60 days that up to an additional 60 days is needed and the date by which the Plan expects to render the decision. If the claim is denied, in whole or in part, on appeal the claimant will receive a written response which will include (i) the reason(s) for the denial, (ii) references to the specific Plan provisions on which the denial is based, (iii) a statement that the claimant is entitled to receive, upon request and free of charge, copies of all documents and other information relevant to the claim on appeal, and (iv) a description of the Plan’s claims and appeals procedures.

If the claim is denied on appeal, the Officer has the right to bring an action under Section 502(a) of the Employee Retirement Income Security Act of 1974, as amended. Any claimant must pursue all claims and appeals procedures described in the Plan document before seeking any other legal recourse with respect to Plan benefits. In addition, any lawsuit must be filed within six months from the date of the denied appeal, or two years from the Officer’s termination date, whichever occurs first.

9. Amendment. The Company (acting through the Committee) reserves the right at any time to terminate or amend this Plan in any respect and without the consent of any Officer.

10. Unfunded Obligations. All benefits due an Officer or the Officer’s beneficiary under this Plan are unfunded and unsecured and are payable out of the general funds of the Company. The Company, in its sole and absolute discretion, may establish a trust associated with the payment of Plan benefits, provided that the trust does not alter the characterization of the Plan as an “unfunded plan” for purposes of the

Employee Retirement Income Security Act, as amended. Any such trust shall make distributions in accordance with the terms of the Plan.

11. Transferability of Benefits. The right to receive payment of any benefits under this Plan shall not be transferred, assigned or pledged except by beneficiary designation or by will or under the laws of descent and distribution.

12. Taxes. The Company may withhold from any payment due under this Plan any taxes required to be withheld under applicable federal, state or local tax laws or regulations.

13. Gender. The use of masculine pronouns in this Plan shall be deemed to include both males and females.

14. Construction, Governing Laws. The Plan is intended as (i) a pension plan within the meaning of Section 3(2) of the Employee Retirement Income Security Act, as amended (“ERISA”), and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA. Nothing in this Plan creates a vested right to benefits in any employee or any right to be retained in the employ of the Company. Except to the extent that federal legislation or applicable regulation shall govern, the validity and construction of the Plan and each of its provisions shall be subject to and governed by the laws of the Commonwealth of Virginia.

15. Severability. If any provision of the Plan is found, held or deemed to be void, unlawful or unenforceable under any applicable statute or other controlling law, the remainder of the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 20th day of July, 2012.

NORTHROP GRUMMAN CORPORATION

By: /s/ Christopher McGee
Christopher McGee
Vice President, Compensation & Benefits

Appendix for Corporate Policy Council (CPC) Officers other than the Chief Executive Officer

The following benefits shall apply for purposes of eligible Officers (other than the Company's Chief Executive Officer) who are members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal one and one half (1.5) times the sum of (A) one year's base salary as in effect on the effective date of the Officer's termination, plus (B) the Officer's target annual bonus established under the Company's annual incentive plan in which he or she was a participant for the fiscal year in which the date of termination occurs. No supplemental bonuses or other bonuses will be combined with the Officer's annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for eighteen months following the Officer's termination date.

Section 4(d)(i). Financial Planning. If the Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. In addition, the Officer will be reimbursed for the following financial planning fees incurred after his termination date: (i) any fees incurred in the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year (including fees incurred before and after the date of termination) shall not exceed \$15,000 and (ii) any fees incurred in the year following the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year shall not exceed \$15,000.

Appendix for non-CPC Officers

The following benefits shall apply for purposes of eligible Officers who are not members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal the sum of (A) one year's base salary as in effect on the effective date of the Officer's termination, plus (B) the Officer's target annual bonus established under the Company's annual incentive plan in which he or she was a participant for the fiscal year in which the date of termination occurs. No supplemental bonuses or other bonuses will be combined with the Officer's annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for one year following the Officer's termination date.

Section 4(d)(i). Financial Planning. If the Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. In addition, the Officer will be reimbursed for the following financial planning fees incurred after his termination date: (i) any fees incurred in the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year (including fees incurred before and after the date of termination) shall not exceed \$5,000 and (ii) any fees incurred in the year following the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year shall not exceed \$5,000.

**CONFIDENTIAL SEPARATION AGREEMENT
AND GENERAL RELEASE**

1.0 PARTIES: The parties to this Confidential Separation Agreement and General Release (“Agreement”) are John Doe (“Mr. Doe”) and NORTHROP GRUMMAN CORPORATION (“Northrop Grumman” or “the Company”).

2.0 RECITALS: This Agreement is made regarding the following facts:

- 2.1 Mr. Doe is currently an appointed officer of Northrop Grumman.
- 2.2 In connection with his separation from employment with the Company, Mr. Doe has been offered severance benefits under the Company’s Severance Plan for Elected and Appointed Officers (the “Severance Plan”).
- 2.3 The Severance Plan requires that, to receive such benefits, an officer must sign a Confidential Separation Agreement and General Release. This Agreement satisfies this requirement.
- 2.4 Mr. Doe has decided to accept the Company’s offer of severance benefits and to enter into this Agreement.

3.0 CONSIDERATION: In exchange for Mr. Doe’s promise to abide by all of the terms of this Agreement, the Company agrees to provide Mr. Doe the severance benefits specified in section 4 of the Severance Plan in accordance with the terms of the Severance Plan, which severance benefits include:

- 3.1 Lump-sum Cash Severance. A payment equal to the sum of \$_____, less applicable withholding. This amount represents the total of **[one]** times the sum of (i) Mr. Doe’s annual base salary of \$_____; and (ii) Mr. Doe’s target annual bonus of \$_____ under the Company’s annual incentive plan in which Mr. Doe was a participant. This amount will be paid to Mr. Doe in a lump sum in accordance with the terms of the Severance Plan.
- 3.2 Pro Rata Bonus. A severance payment equal to a pro rata portion of the bonus Mr. Doe would have received for the ____ performance year pursuant to the terms of the Company’s annual incentive plan in which Mr. Doe was a participant, in addition to the lump-sum cash severance payment described in Section 3.1. The bonus will be pro rated from the beginning of the performance period (January 1) to Mr. Doe’s Separation Date. For purposes of this severance payment, the pro rata bonus will

be based on the applicable annual incentive plan payout formula, with any Individual Performance Factor (IPF) for Mr. Doe set at 1.00. If Mr. Doe is covered by the Incentive Compensation Plan (ICP), this severance payment will not exceed the maximum bonus Mr. Doe would have earned under the ICP had he remained employed. This severance payment will be paid when annual bonuses are paid to active employees between February 15 and March 15, _____.

[Alternative Section 3.2 if termination occurs at year end: Mr. Doe will be paid a bonus for calendar year _____ pursuant to the terms of the Annual Incentive Plan (and not the Severance Plan), which will be based on the applicable incentive plan payout formula, with the Individual Performance Factor for Mr. Doe set at no less than 1.0. This bonus will be paid to Mr. Doe when annual bonuses are paid to employees between February 15 and March 15, _____.]

- 3.3 Medical and Dental Coverage Continuation. Mr. Doe may elect to continue his medical and dental coverage in effect as of the Separation Date (as defined in Section 4.0 below) for **[twelve]** months, provided he pays his portion of the cost of such coverage with after-tax dollars. The Company will continue to pay its portion of the cost of Mr. Doe's medical and dental benefits for the **[twelve]** month continuation period. If rates for active employees increase during this continuation period, Mr. Doe's contribution will increase proportionately. Also, if medical and dental benefits are modified or terminated for active employees during this continuation period, Mr. Doe's benefits shall be subject to this modification or termination. Mr. Doe's medical and dental benefits shall be reduced to the extent Mr. Doe is eligible for benefits or payments for the same occurrence under another employer-sponsored plan to which Mr. Doe is entitled because of his employment after the Separation Date. This continuation coverage shall run concurrently with coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (or similar state law coverage) and shall be in lieu of such coverage. Following the continuation period, Mr. Doe shall be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period at normal COBRA rates.
- 3.4 Other Fringe Benefits. Pursuant to the terms of the Executive Perquisite Program for appointed officers (the "Program"), Mr. Doe will be reimbursed for any eligible financial planning fees incurred during **[year of Separation Date]** (regardless of whether such fees are incurred before or after the Separation Date) and the immediately following year, subject to a maximum reimbursement for each year equal to **[\$5,000]**. Mr. Doe will be reimbursed for the cost of reasonable outplacement services from the Company's outplacement service provider during the one year

period following his Separation Date; provided, however that the total outplacement services reimbursement shall be no greater than \$_____. All outplacement services will be subject to the Company's current contract with the provider. The reimbursements provided for in this Section 3.4 are subject to the terms and conditions of, and will be reimbursed to Mr. Doe within the applicable time periods specified in, the Severance Plan. Except as provided in this Section 3.4, all perquisites shall cease as of the Separation Date.

3.5 Not Pension Eligible Compensation. **[If alternative Section 3.2 is used:** Except for the bonus provided in Section 3.2,] None of the consideration or payments made pursuant to the Severance Plan and specified in this Agreement shall be eligible as compensation under any Company retirement, pension or benefit plan.

4.0 **SEPARATION FROM EMPLOYMENT:** Mr. Doe's employment will be terminated by the Company effective _____. This shall be his Separation Date.

5.0 **COMPLETE RELEASE:** In exchange for the consideration described in Section 3, Mr. Doe RELEASES the Company from liability for any claims, demands or causes of action (except as described in Section 5.5). This Release applies not only to the "Company" itself, but also to all Northrop Grumman subsidiaries, affiliates, related companies, predecessors, successors, its or their employee benefit plans, trustees, fiduciaries and administrators, and any and all of its and their respective past or present officers, directors, agents and employees ("Released Parties"). For purposes of this Release, the term "Mr. Doe" includes not only Mr. Doe himself, but also his heirs, spouses or former spouses, domestic partners or former domestic partners, executors and agents. Except as described in Section 5.5, this Release extinguishes all of Mr. Doe's claims, demands or causes of action, known or unknown, against the Company and the Released Parties, based on anything occurring on or before the date Mr. Doe signs this Agreement.

5.1 This Release includes, but is not limited to, claims relating to Mr. Doe's employment or termination of employment by the Company and any Released Party, any rights of continued employment, reinstatement or reemployment by the Company and any Released Party, claims relating to or arising under Company or Released Party dispute resolution procedures, claims for any costs or attorneys' fees incurred by Mr. Doe, and claims for severance benefits other than those listed herein. Mr. Doe acknowledges and agrees that payment to him of the benefits set forth in this Agreement will fully satisfy any rights he may have for benefits under any severance plan of any of the Released Parties.

5.2 This Release includes, but is not limited to, claims arising under the Age Discrimination in Employment Act, the Family and Medical Leave Act,

the Employee Retirement Income Security Act, the False Claims Act, Executive Order No. 11246, the Civil Rights Act of 1991, and 42 U.S.C. § 1981. It also includes, but is not limited to, claims under Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination in employment based on disability, and retaliation; any laws prohibiting discrimination in employment based on veteran status; any applicable state human rights statutes including the [insert applicable state law, such as: California Fair Employment and Housing Act, which prohibits discrimination in employment based on race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, marital status, sex, age, or sexual orientation]; and any other federal, state or local laws, ordinances, regulations and common law, to the fullest extent permitted by law.

5.3 This Release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to the personnel policies or employee handbooks of the Company and any Released Party, or any oral or written representations or statements made by the Company and any Released Party, past and present, or any claim for wrongful discharge, breach of contract (including any employment agreement), breach of the implied covenant of good faith and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

5.4 **[California version:]**

Mr. Doe waives and gives up all rights he may have under Section 1542 of the California Civil code, which provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Notwithstanding the provisions of Section 1542, Mr. Doe agrees that his Release includes claims which he did not know of or suspect to exist at the time he signed this Agreement, and that this Release extinguishes all known and unknown claims.

[Alternative outside CA:]

[This Release includes both known and unknown claims. Mr. Doe agrees that this Release includes claims he did not know or suspect to exist at

the time he signed this Agreement, and that this Release extinguishes all known and unknown claims.]

5.5 However, this Release does not include any rights Mr. Doe may have: (1) to enforce this Agreement and his rights to receive the benefits described in Section 3 of this Agreement; (2) to any indemnification rights Mr. Doe may have for expenses or losses incurred in the course and scope of his employment; (3) to test the knowing and voluntary nature of this Agreement under The Older Workers Benefit Protection Act; (4) to workers' compensation benefits; (5) to earned, banked or accrued but unused vacation pay; (6) to rights under minimum wage and overtime laws; (7) to vested benefits under any pension or savings plan; (8) to continued benefits in accordance with COBRA; (9) to government-provided unemployment insurance; (10) to file a claim or charge with any government administrative agency (although Mr. Doe is releasing any rights he may have to recover damages or other relief in connection with the filing of such a claim or charge); (11) to claims that cannot lawfully be released; (12) to any rights Mr. Doe may have for retiree medical coverage; (13) to any rights Mr. Doe may have with respect to his existing equity grants under the Company's Long Term Incentive Stock Plan; or (14) to claims arising after the date Mr. Doe signs this Agreement.

6.0 ARBITRATION: If either the Company or Mr. Doe decides to sue the other over the enforceability of this Agreement, or for violating this Agreement, all such claims will be determined through final and binding arbitration, rather than through litigation in court, in accordance with Northrop Grumman Corporate Procedure H103A. If the Company or Mr. Doe wants immediate relief, before the arbitration is finished, then either party may go to a court with jurisdiction over the dispute, and ask the court for provisional injunctive or other equitable relief until the arbitrator has issued an award or the dispute is otherwise resolved. Any court with jurisdiction over the dispute may enter judgment on the arbitrator's award. Notwithstanding the provisions of H103A, the Company and Mr. Doe agree that the prevailing party in the arbitration shall be entitled to receive from the losing party reasonably incurred attorneys' fees and costs incurred in enforcing this Agreement, except in any challenge by Mr. Doe to the validity of this Agreement under the Age Discrimination in Employment Act and/or Older Workers Benefit Protection Act.

7.0 CONFIDENTIALITY:

7.1 Mr. Doe agrees that he will keep the terms and fact of the Agreement completely confidential, and that he will not disclose any specific information regarding the terms and conditions of the Agreement to anyone other than his spouse, domestic partner, attorney, or accountant, except as necessary to enforce the Agreement, to comply with the law

or lawful discovery, in response to a court order, or for tax or accounting purposes.

7.2 Should Mr. Doe choose to disclose the terms or fact of this Agreement to his spouse, domestic partner, attorney, or accountant, Mr. Doe agrees that he will advise them that they will also be under an obligation to keep the terms and fact of this Agreement completely confidential.

7.3 Despite this confidentiality obligation, Mr. Doe, his legal counsel, his spouse or domestic partner, and his accountant are permitted to: (1) disclose the terms or the fact of this Agreement when required to do so by law, by any court or administrative agency (including state or federal taxing authorities), and by any tribunal of appropriate jurisdiction; and (2) provide truthful testimony about Mr. Doe's employment with the Company or the Company's business activities to any government or regulatory agency, or in any court proceeding.

8.0 **RETURN OF COMPANY PROPERTY:** Mr. Doe agrees to return any and all property and equipment of the Company and any Released Party that he may have in his possession no later than the Separation Date, except to the extent this Agreement explicitly provides to the contrary.

9.0 **FULL DISCLOSURE:** Mr. Doe acknowledges that he is not aware of, or has fully disclosed to the Company any matters for which he was responsible or came to his attention as an employee, which might give rise to any claim or cause of action against the Company and any Released Party. Mr. Doe has reported to the Company all work-related injuries, if any, that he has suffered or sustained during his employment with the Company and any Released Party. Mr. Doe has properly reported all hours he worked.

10.0 **NO UNRESOLVED CLAIMS:** This Agreement has been entered into with the understanding that there are no unresolved claims of any nature which Mr. Doe has against the Company. Mr. Doe acknowledges and agrees that except as specified in Section 3, all compensation, benefits, and other obligations due Mr. Doe by the Company, whether by contract or by law, have been paid or otherwise satisfied in full.

11.0 **WITHHOLDING OF TAXES:** The Company shall be entitled to withhold from any amounts payable or pursuant to this Agreement all taxes as legally shall be required (including, without limitation, United States federal taxes, and any other state, city or local taxes).

12.0 **ADVICE OF COUNSEL; PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT :** The Company encourages Mr. Doe to seek and receive advice about this Agreement from an attorney of his choosing. Mr. Doe has twenty-one (21) calendar days **[Alternative: forty-five (45) calendar days.** Note: If this

alternative is used, add attachments re program eligibility factors, selection information, and job titles and ages of employees selected/not selected] from his initial receipt of this Agreement to review and consider it. Mr. Doe understands that he may use as much of this review period as he wishes before signing this Agreement. If Mr. Doe has executed this Agreement before the end of such review period, he represents and agrees that he does so voluntarily and of his own free will.

- 13.0 RIGHT TO REVOKE AGREEMENT:** Mr. Doe may revoke this Agreement within seven (7) calendar days of his signature date. To do so, Mr. Doe must deliver a written revocation notice to [fill in name, title and address.] Mr. Doe must deliver the notice to [name] no later than 4:30 p.m. [PT] on the seventh calendar day after Mr. Doe's signature date. If Mr. Doe revokes this Agreement, it shall not be effective or enforceable, and Mr. Doe will not receive the benefits described in Section 3 of this Agreement.
- 14.0 DENIAL OF WRONGDOING:** Neither party, by signing this Agreement, admits any wrongdoing or liability to the other. Both the Company and Mr. Doe deny any such wrongdoing or liability.
- 15.0 COOPERATION:** Mr. Doe agrees that, for at least two (2) years following the Separation Date, he will reasonably cooperate with Company and any Released Party regarding requests for assistance by serving as a witness or providing information about matters connected with Mr. Doe's prior employment with the Company or any Released Party. The Company or the Released Party requesting assistance shall reimburse Mr. Doe for any travel costs he incurs in connection with his cooperation, in accordance with its travel cost reimbursement policy for active employees.
- 16.0 NON-SOLICITATION AND NON-DISPARAGEMENT:**
- 16.1 By Mr. Doe: For a period of one year following the Separation Date, Mr. Doe shall not, directly or indirectly, through aid, assistance, or counsel, on his own behalf or on behalf of another person or entity (i) solicit or offer to hire [Alternative outside CA: , or hire,] any person who was within a period of six months prior to the Separation Date employed by the Company, or (ii) by any means issue or communicate any public statement that may be critical or disparaging of the Company, its products, services, officers, directors, or employees; provided that the foregoing shall not apply to any truthful statements made in compliance with legal process or governmental inquiry.
- 16.2 By the Company: For a period of one year following the Separation Date, the Company shall not by any means issue or communicate any public statement that may be critical or disparaging of Mr. Doe, provided that the foregoing shall not apply to truthful statements made in

compliance with legal process, governmental inquiry, or as required by legal filing or disclosure requirements.

- 17.0 SEVERABILITY:** The provisions of this Agreement are severable. If any part of this Agreement, other than Section 5, is found to be illegal or invalid and thereby unenforceable, then the unenforceable part shall be removed, and the rest of the Agreement shall remain valid and enforceable.
- 18.0 SOLE AND ENTIRE AGREEMENT:** This Agreement, together with relevant provision of the Severance Plan, expresses the entire understanding between the Company and Mr. Doe on the matters it covers. It supersedes all prior discussions, agreements, understandings and negotiations between the parties on these matters, except that any writing between the Company and Mr. Doe relating to protection of Company trade secrets or intellectual property shall remain in effect.
- 19.0 MODIFICATION:** Once this Agreement takes effect, it may not be cancelled or changed, unless done so in a document signed by both Mr. Doe and an authorized Company representative.
- 20.0 GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the laws of [Virginia], without regard to rules regarding conflicts of law.

21.0 ADVICE OF COUNSEL; VOLUNTARY AGREEMENT:

MR. DOE ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT **CAREFULLY**, THAT HE UNDERSTANDS IT, AND THAT HE IS VOLUNTARILY ENTERING INTO IT. MR. DOE UNDERSTANDS AND ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS HIS RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

Date: ___ By: ___

Date: ___ By: ___

Grumman Corporation

Northrop

Title: ___

Summary of Terms of RPSR Grant Modification for James F. Pitts

The Compensation Committee of the Board of Directors approved modifying the terms and conditions of Mr. Pitts' 2011 and 2012 Restricted Performance Stock Rights ("RPSRs") grants to provide for the continued vesting of the RPSRs after his retirement from the Company through the remainder of the performance period as set forth in the terms of the respective RPSR grant agreements.

For a description of the terms and conditions applicable to the 2011 and 2012 RPSR grants, see the grant certificates filed as Exhibit 10.2 to the Form 8-K filed February 22, 2011 and Exhibit 10.2 to the Form 8-K filed February 17, 2012, respectively.

NORTHROP GRUMMAN CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<i>\$ in millions</i>	Nine Months Ended September 30		Year Ended December 31				
	2012	2011	2011	2010	2009	2008	2007
Earnings:							
Earnings from continuing operations before income taxes	\$ 2,178	\$ 2,301	\$ 3,083	\$ 2,366	\$ 2,070	\$ 1,841	\$ 2,158
Fixed Charges:							
Interest expense, including amortization of debt premium	158	168	221	269	269	271	312
Portion of rental expenses on operating leases deemed to be representative of the interest factor	87	109	140	149	167	177	177
Earnings from continuing operations before income taxes and fixed charges	\$ 2,423	\$ 2,578	\$ 3,444	\$ 2,784	\$ 2,506	\$ 2,289	\$ 2,647
Fixed Charges:	\$ 245	\$ 277	\$ 361	\$ 418	\$ 436	\$ 448	\$ 489
Ratio of earnings to fixed charges	9.9	9.3	9.5	6.7	5.7	5.1	5.4

NORTHROP GRUMMAN CORPORATION

Exhibit 15

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

October 23, 2012

Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church, Virginia 22042

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended September 30, 2012 and 2011, as indicated in our report dated October 23, 2012; 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 September 30, 2012, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-67266, 333-100179, 333-107734, 333-121104, 333-125120, 333-127317, and 333-175798 on Form S-8; and Registration Statement No. 333-175818 on Form S-3.

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
McLean, Virginia

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wesley G. Bush, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 23, 2012

/s/ Wesley G. Bush

Wesley G. Bush
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James F. Palmer, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 23, 2012

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wesley G. Bush, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: October 23, 2012

/s/ Wesley G. Bush

Wesley G. Bush
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: October 23, 2012

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial Officer

