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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2009

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)

**95-4840775**  
(I.R.S. Employer  
Identification No.)

**1840 Century Park East, Los Angeles, California 90067**

**www.northropgrumman.com**

(Address of principal executive offices and internet site)

**(310) 553-6262**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 definition 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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

As of April 20, 2009, 323,468,808 shares of common stock were outstanding.

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## NORTHROP GRUMMAN CORPORATION

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31	
<i>\$ in millions, except per share amounts</i>	2009	2008
Sales and Service Revenues		
Product sales	\$4,570	\$4,394
Service revenues	3,750	3,330
Total sales and service revenues	\$8,320	\$7,724
Cost of Sales and Service Revenues		
Cost of product sales	3,635	3,729
Cost of service revenues	3,281	2,793
General and administrative expenses	749	738
Operating income	\$ 655	\$ 464
Other (expense) income		
Interest expense	(73)	(77)
Other, net	8	22
Earnings from continuing operations before income taxes	590	409
Federal and foreign income taxes	201	146
Earnings from continuing operations	389	263
Income from discontinued operations, net of tax		1
Net earnings	\$ 389	\$ 264
Basic Earnings Per Share		
Continuing operations	\$ 1.19	\$ .78
Discontinued operations		
Basic earnings per share	\$ 1.19	\$ .78
Weighted-average common shares outstanding, in millions	326.9	338.8
Diluted Earnings Per Share		
Continuing operations	\$ 1.17	\$ .76
Discontinued operations		
Diluted earnings per share	\$ 1.17	\$ .76
Weighted-average diluted shares outstanding, in millions	332.1	349.3
Net earnings (from above)	\$ 389	\$ 264
Other comprehensive income		
Change in cumulative translation adjustment	(14)	3
Change in unrealized gain (loss) on marketable securities and cash flow hedges, net of tax	7	(2)
Change in unamortized benefit plan costs, net of tax	53	4
Other comprehensive income, net of tax	46	5
Comprehensive income	\$ 435	\$ 269

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

## NORTHROP GRUMMAN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

<i>\$ in millions</i>	March 31, 2009	December 31, 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 882	\$ 1,504
Accounts receivable, net of progress payments	4,416	3,904
Inventoried costs, net of progress payments	1,178	1,003
Deferred income taxes	520	549
Prepaid expenses and other current assets	256	229
Total current assets	7,252	7,189
Property, plant, and equipment, net of accumulated depreciation of \$3,925 in 2009 and \$3,803 in 2008	4,777	4,810
Goodwill	14,524	14,518
Other purchased intangibles, net of accumulated amortization of \$1,821 in 2009 and \$1,795 in 2008	921	947
Pension and postretirement plan assets	292	290
Long-term deferred tax assets	1,455	1,510
Miscellaneous other assets	921	933
<b>Total assets</b>	<b>\$30,142</b>	<b>\$30,197</b>
<b>Liabilities</b>		
Notes payable to banks	\$ 24	\$ 24
Current portion of long-term debt	565	477
Trade accounts payable	1,924	1,943
Accrued employees' compensation	1,280	1,284
Advance payments and billings in excess of costs incurred	1,953	2,036
Other current liabilities	1,763	1,660
Total current liabilities	7,509	7,424
Long-term debt, net of current portion	3,352	3,443
Pension and postretirement plan liabilities	5,721	5,823
Other long-term liabilities	1,503	1,587
Total liabilities	18,085	18,277
<b>Commitments and Contingencies (Note 10)</b>		
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2009 – 324,674,859; 2008 – 327,012,663	325	327
Paid-in capital	9,482	9,645
Retained earnings	5,846	5,590
Accumulated other comprehensive loss	(3,596)	(3,642)
Total shareholders' equity	12,057	11,920
<b>Total liabilities and shareholders' equity</b>	<b>\$30,142</b>	<b>\$30,197</b>

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

**NORTHROP GRUMMAN CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

<i>\$ in millions</i>	Three Months Ended March 31,	
	2009	2008
<b>Operating Activities</b>		
Sources of Cash – Continuing Operations		
Cash received from customers		
Progress payments	\$ 1,174	\$ 1,608
Collections on billings	6,326	5,950
Other cash receipts	51	33
Total sources of cash – continuing operations	7,551	7,591
Uses of Cash – Continuing Operations		
Cash paid to suppliers and employees	(7,530)	(7,189)
Interest paid, net of interest received	(98)	(106)
Income taxes paid, net of refunds received	(73)	(52)
Excess tax benefits from stock-based compensation		(44)
Other cash payments	(22)	(3)
Total uses of cash – continuing operations	(7,723)	(7,394)
Cash (used in) provided by continuing operations	(172)	197
Cash used in discontinued operations		(3)
Net cash (used in) provided by operating activities	(172)	194
<b>Investing Activities</b>		
Additions to property, plant, and equipment	(162)	(143)
Payments for outsourcing contract costs and related software costs	(18)	(35)
Decrease in restricted cash	3	26
Other investing activities, net	1	4
Net cash used in investing activities	(176)	(148)
<b>Financing Activities</b>		
Net (payments) borrowings under lines of credit	(1)	33
Proceeds from exercises of stock options and issuances of common stock	8	69
Dividends paid	(131)	(126)
Excess tax benefits from stock-based compensation		44
Common stock repurchases	(150)	(600)
Net cash used in financing activities	(274)	(580)
Decrease in cash and cash equivalents	(622)	(534)
Cash and cash equivalents, beginning of period	1,504	963
Cash and cash equivalents, end of period	\$ 882	\$ 429

## NORTHROP GRUMMAN CORPORATION

<i>\$ in millions</i>	Three Months Ended	
	March 31,	
	2009	2008
<b>Reconciliation of Net Earnings to Net Cash (Used in) Provided by Operating Activities</b>		
Net Earnings	\$ 389	\$ 264
Adjustments to reconcile to net cash (used in) provided by operating activities		
Depreciation	137	136
Amortization of assets	38	62
Stock-based compensation	35	44
Excess tax benefits from stock-based compensation		(44)
Decrease (increase) in		
Accounts receivable	(1,762)	(2,080)
Inventoried costs	(355)	(266)
Prepaid expenses and other current assets	(33)	(15)
Increase (decrease) in		
Progress payments	1,431	1,642
Accounts payable and accruals	(230)	254
Deferred income taxes	45	26
Income taxes payable	131	112
Retiree benefits	(5)	31
Other non-cash transactions, net	7	31
Cash (used in) provided by continuing operations	(172)	197
Cash used in discontinued operations		(3)
Net cash (used in) provided by operating activities	\$ (172)	\$ 194
<b>Non-Cash Investing and Financing Activities</b>		
Mandatorily redeemable convertible preferred stock converted into common stock		\$ 304

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

## NORTHROP GRUMMAN CORPORATION

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

<i>\$ in millions, except per share</i>	Three Months Ended	
	March 31	
	2009	2008
<b>Common Stock</b>		
At beginning of period	\$ 327	\$ 338
Common stock repurchased	(4)	(8)
Conversion of preferred stock		6
Employee stock awards and options	2	3
At end of period	325	339
<b>Paid-in Capital</b>		
At beginning of period	9,645	10,661
Common stock repurchased	(161)	(592)
Conversion of preferred stock		298
Employee stock awards and options	(2)	71
At end of period	9,482	10,438
<b>Retained Earnings</b>		
At beginning of period	5,590	7,387
Net earnings	389	264
Adoption of new accounting standards		(3)
Dividends declared	(133)	(130)
At end of period	5,846	7,518
<b>Accumulated Other Comprehensive Loss</b>		
At beginning of period	(3,642)	(699)
Other comprehensive income, net of tax	46	5
At end of period	(3,596)	(694)
<b>Total shareholders' equity</b>	<b>\$12,057</b>	<b>\$17,601</b>
Cash dividends declared per share	\$ .40	\$ .37

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



## NORTHROP GRUMMAN CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. BASIS OF PRESENTATION

*Principles of Consolidation* – The unaudited condensed consolidated financial statements include the accounts of Northrop Grumman Corporation and its subsidiaries (the company). All material intercompany accounts, transactions, and profits are eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments of 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 audited consolidated financial statements, including the notes thereto contained in the company's 2008 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, which requires the businesses to close their books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist 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 (U.S. 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 on the basis of the most current and best available information and actual results could differ materially from those estimates.

*Accumulated Other Comprehensive Loss* – The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	March 31, 2009	December 31, 2008
Cumulative translation adjustment	\$ (4)	\$ 10
Unrealized loss on marketable securities and cash flow hedges, net of tax benefit of \$16 as of March 31, 2009 and \$20 as of December 31, 2008	(25)	(32)
Unamortized benefit plan costs, net of tax benefit of \$2,322 as of March 31, 2009 and \$2,358 as of December 31, 2008	(3,567)	(3,620)
Total accumulated other comprehensive loss	<b>\$(3,596)</b>	<b>\$(3,642)</b>

*Financial Statement Reclassifications* – Certain amounts in the prior period notes to the condensed consolidated financial statements have been reclassified to reflect the business operations realignments effective in 2009 (see Note 6).

## 2. NEW ACCOUNTING STANDARDS

**Adoption of New Accounting Standards**

The disclosure requirements of SFAS No. 157 – *Fair Value Measurements*, which took effect on January 1, 2008, are presented in Note 3. On January 1, 2009, the company implemented the previously deferred provisions of SFAS No. 157 for nonfinancial assets and liabilities recorded at fair value, as required.

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The disclosure requirements of SFAS No. 161 – *Disclosures about Derivative Instruments and Hedging Activities*, which took effect on January 1, 2009, are presented in Note 3.

The accounting requirements of SFAS No. 141(R) – *Business Combinations*, which took effect on January 1, 2009, were adopted but had no impact on the company's financial statements.

The accounting and presentation requirements of SFAS No. 160 – *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*, which took effect on January 1, 2009, had no impact on the financial statements as the company's non-controlling interests were not material.

### **Standards Issued But Not Yet Effective**

Other new pronouncements issued but not effective until after March 31, 2009, are not expected to have a significant effect on the company's consolidated financial position or results of operations.

### **3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

As of March 31, 2009, and December 31, 2008, respectively, there were marketable equity securities of \$41 million and \$44 million included in prepaid expenses and other current assets and \$175 million and \$180 million of marketable debt and equity securities included in miscellaneous other assets. These assets are recorded at fair value, substantially all of which are based upon quoted market prices in active markets. These investments can be liquidated without restriction. Other financial instruments recorded at fair value based on other observable inputs are not material. Pension plan assets are measured at fair value on their annual measurement date.

As of March 31, 2009, the company had interest rate swap agreements, forward starting swap agreements, and foreign currency exchange contracts, with notional values totaling \$400 million, \$400 million and \$289 million, respectively. The interest rate swaps, forward starting swaps, and a portion of the foreign currency exchange contracts agreements were designated as hedging instruments under SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, while the remainder of the foreign exchange contracts were not designated as hedging instruments.

The fair value of the forward starting swap agreements was a \$45 million liability at March 31, 2009 and a \$58 million liability at December 31, 2008 and included in other current liabilities. All other derivative fair values and related unrealized gains and losses at March 31, 2009 and for the three months then ended were not material.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value. Changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges are recorded in earnings from continuing operations, while the effective portion of the changes in the fair value of derivative financial instruments that qualify and are designated as cash flow hedges are recorded in other comprehensive income. The company may use derivative financial instruments to manage its exposure to interest rate and foreign currency exchange risks and to balance its fixed and variable rate long-term debt portfolio. The company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

For derivative financial instruments not designated as hedging instruments and the ineffective portion of cash flow hedges, gains or losses resulting from changes in the fair value are reported in Other, net in the condensed consolidated statements of operations and comprehensive income. Unrealized gains or losses on cash flow hedges are reclassified from accumulated other comprehensive loss to operating income upon the recognition of the underlying transactions.

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### 4. CONVERSION OF PREFERRED STOCK

On February 20, 2008, the company's board of directors approved the redemption of the 3.5 million shares of mandatorily redeemable convertible preferred stock on April 4, 2008. Prior to the redemption date, substantially all of the preferred shares were converted into common stock at the election of shareholders. All remaining unconverted preferred shares were redeemed by the company on the redemption date. As a result of the conversion and redemption, the company issued approximately 6.4 million shares of common stock.

### 5. BUSINESS ACQUISITIONS AND DISPOSITIONS

#### Acquisitions

*3001* – In October 2008, the company acquired 3001 International, Inc. (3001) for approximately \$92 million in cash. 3001 provides geospatial data production and analysis, including airborne imaging, surveying, mapping and geographic information systems for U.S. and international government intelligence, defense and civilian customers. The operating results of 3001 are reported in the Information Systems segment from the date of acquisition. The condensed consolidated financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for the entities acquired. Management does not expect adjustments to these estimates, if any, to have a material effect on the company's condensed consolidated financial position or results of operations.

#### Dispositions

*Electro-Optical Systems* – In April 2008, the company sold its Electro-Optical Systems (EOS) business for \$175 million in cash to L-3 Communications Corporation and recognized a gain of \$19 million, net of taxes of \$39 million. EOS, formerly a part of the Electronic Systems segment, produces night vision and applied optics products. Sales for this business for the three months ended March 31, 2008 were approximately \$43 million. Operating results of this business are reported as discontinued operations in the condensed consolidated statements of operations and comprehensive income for all applicable periods presented.

### 6. SEGMENT INFORMATION

In January 2009, the company streamlined its organizational structure by reducing the number of operating segments from seven to five. The five segments are Information Systems, which combines the former Information Technology and Mission Systems segments; Aerospace Systems, which combines the former Integrated Systems and Space Technology segments; Electronic Systems; Shipbuilding; and Technical Services. These five segment are considered reportable segments in accordance with SFAS No. 131 – *Disclosures about Segments of an Enterprise and Related Information*. Intersegment sales and intersegment operating (loss) income between the former Integrated Systems and Space Technology segments, and between the former Information Technology and Mission Systems segments have been eliminated as part of the realignment. The creation of the Information Systems and Aerospace Systems segments is intended to strengthen alignment with customers, improve the company's ability to execute on programs and win new business, and enhance cost competitiveness. Product sales are predominantly generated in the Aerospace Systems, Electronic Systems and Shipbuilding segments, while the majority of the company's service revenues are generated by the Information Systems and Technical Services segments.

During the first quarter of 2009, the company realigned certain logistics, services, and technical support programs and assets from the Information Systems and Electronic Systems segments to the Technical Services segment. This realignment is intended to strengthen the company's core capability in aircraft and electronics maintenance, repair and overhaul, life cycle optimization, and training and simulation services.

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Sales and segment operating income in the following tables have been revised to reflect the above realignments for all periods presented.

During the first quarter of 2009, the company transferred certain optics and laser programs from Information Systems to Aerospace Systems. As the operating results of this business were not considered material, the prior year sales and operating income were not reclassified to reflect this business transfer.

The following table presents segment sales and service revenues for the three months ended March 31, 2009 and 2008.

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
<b>Sales and Service Revenues</b>		
Information Systems	\$2,491	\$2,298
Aerospace Systems	2,456	2,361
Electronic Systems	1,788	1,545
Shipbuilding	1,375	1,264
Technical Services	632	558
Intersegment eliminations	(422)	(302)
Total sales and service revenues	\$8,320	\$7,724

The following table presents segment operating income reconciled to total operating income for the three months ended March 31, 2009 and 2008.

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
<b>Operating Income</b>		
Information Systems	\$223	\$ 212
Aerospace Systems	258	252
Electronic Systems	229	209
Shipbuilding	84	(218)
Technical Services	37	29
Intersegment eliminations	(40)	(26)
<b>Total segment operating income</b>	<b>791</b>	<b>458</b>
Non-segment factors affecting operating income		
Unallocated expenses	(53)	(32)
Net pension adjustment	(76)	59
Royalty income adjustment	(7)	(21)
Total operating income	\$655	\$ 464

*Shipbuilding Earnings Charge Relating to LHD-8 Contract Performance* – During the first quarter of 2008, the company recorded a pre-tax charge of \$272 million for cost growth on the LHD-8 contract and an additional \$54 million, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyards. During the second half of 2008, the LHD-8 program achieved several important risk retirement milestones toward its planned delivery date and as a result \$63 million of the first quarter 2008 charge was reversed in the second half of 2008. In the three months ended March 31, 2009, the LHD-8 completed U.S. Navy acceptance sea trials ahead of schedule and, as a result, an additional \$30 million of the first quarter 2008 charge was reversed.

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*Unallocated Expenses* – Unallocated 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, for costs related to management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses.

*Net Pension Adjustment* – The net pension adjustment reflects the difference between pension expense determined in accordance with U.S. GAAP and pension expense allocated to the operating segments determined in accordance with CAS.

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

**7. EARNINGS PER SHARE**

*Basic Earnings Per Share* – Basic earnings per share from continuing operations are calculated by dividing earnings from continuing operations available to common shareholders by the weighted-average number of shares of common stock outstanding during each period.

*Diluted Earnings Per Share* – Diluted earnings per share include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and, for 2008, the company’s mandatorily redeemable convertible preferred stock (See Note 4). The dilutive effect of these securities totaled 5.2 million shares and 10.5 million shares for the three months ended March 31, 2009 and 2008, respectively, including 4.5 million shares for the preferred stock in the three months ended March 31, 2008. The weighted-average diluted shares outstanding for the three months ended March 31, 2009 and 2008, exclude stock options to purchase approximately 13.4 million and 1.3 million shares, respectively, because such options have an exercise price in excess of the average market price of the company’s common stock during the period.

Diluted earnings per share from continuing operations are calculated as follows:

<i>in millions, except per share</i>	Three Months Ended March 31	
	2009	2008
<b>Diluted Earnings Per Share From Continuing Operations</b>		
Earnings from continuing operations	\$ 389	\$ 263
Add dividends on mandatorily redeemable convertible preferred stock		1
Income from continuing operations available to common shareholders	\$ 389	\$ 264
Weighted-average common shares outstanding	326.9	338.8
Dilutive effect of stock options, awards and mandatorily redeemable convertible preferred stock	5.2	10.5
Weighted-average diluted common shares outstanding	332.1	349.3
<b>Diluted earnings per share from continuing operations</b>	<b>\$ 1.17</b>	<b>\$ .76</b>

*Share Repurchases* – The table below summarizes the company’s share repurchases beginning January 1, 2008:

Authorization Date	Amount Authorized (in millions)	Average Price Per Share	Total Shares Retired (in millions)	Shares Repurchased (in millions) Three Months Ended March 31,	
				2009	2008
December 19, 2007	\$2,500	\$67.05	25.7	4.2	7.6

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Share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and 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 programs. As of March 31, 2009, the company has \$780 million remaining under this authorization for share repurchases.

**8. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS****Goodwill**

The changes in the carrying amounts of goodwill for the three months ended March 31, 2009, were as follows:

<i>\$ in millions</i>	Balance as of December 31, 2008	Goodwill Transfers	Goodwill Adjustments	Balance as of March 31, 2009
Information Systems	\$ 6,399	\$(138)	\$(1)	\$ 6,260
Aerospace Systems	3,748	41	7	3,796
Electronic Systems	2,428	(26)		2,402
Shipbuilding	1,141			1,141
Technical Services	802	123		925
Total	\$14,518	\$ —	\$ 6	\$14,524

*Goodwill Transfers* - During the first quarter of 2009, the company realigned certain logistics, services, and technical support programs and assets from the Information Systems and Electronic Systems segments to the Technical Services segment. As a result of this realignment, goodwill of approximately \$123 million was reallocated between these segments. Additionally during the first quarter of 2009, the company transferred certain optics and laser programs from Information Systems to Aerospace Systems resulting in the reallocation of goodwill of approximately \$41 million.

**Purchased Intangible Assets**

The table below summarizes the company's aggregate purchased intangible assets:

<i>\$ in millions</i>	March 31, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$2,642	\$(1,745)	\$897	\$2,642	\$(1,720)	\$922
Other purchased intangibles	100	(76)	24	100	(75)	25
Total	\$2,742	\$(1,821)	\$921	\$2,742	\$(1,795)	\$947

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years. Aggregate amortization expense for the three months ended March 31, 2009, was \$26 million.

**NORTHROP GRUMMAN CORPORATION**

The table below shows expected amortization for purchased intangibles for the remainder of 2009 and for the next five years:

*\$ in millions*

Year ending December 31	
2009 (April 1 – December 31)	\$76
2010	91
2011	54
2012	53
2013	43
2014	34

**9. LITIGATION**

*U.S. Government Investigations and Claims* – Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

On April 2, 2009, the company reached an agreement with the U.S. Government to settle two previously disclosed legal matters. The first matter involved potentially substantial claims by the U.S. Department of Justice and a restricted U.S. Government customer relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a part of the company. In the third quarter of 2006, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of \$112.5 million to cover the cost of the settlement proposal and associated investigative costs. While the company believes that it acted properly under its contracts and had substantive defenses to the claims, it also believes that the settlement agreement is in the best interests of all parties as it releases the company from the government's claims, avoids litigation and preserves a valued customer relationship. Under the terms of the settlement agreement, the U.S. Department of Justice valued its claims regarding the microelectronics matter at \$325 million. The second matter covered by the settlement agreement involved a lawsuit filed by the company in 1996 against the U.S. Government in the U.S. Court of Federal Claims relating to the Tri-Service Standoff Attack Missile (TSSAM) program. As previously disclosed, the company received a termination for convenience notice on the program and sought recovery for uncompensated performance costs, investments and a reasonable profit on the program. Under the terms of the settlement agreement, the U.S. Department of Justice valued the company's TSSAM claims at \$325 million. The settlement amounts for the two matters are equal and thereby offset each other. The financial impact of the settlement agreement, including its related cost, on the previously recorded accrual for the microelectronics claim and any adjustments for other legal matters will result in a net gain for the second quarter of 2009. The settlement agreement will not have a significant impact on the company's cash from operations.

As previously disclosed, in the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems" and alleged "nonconforming topside equipment" on the vessels. The company submitted a written response that argued that the revocation of acceptance was improper, and in late December 2007, the Coast Guard advised Integrated Coast Guard Systems (the contractors' joint venture for performing the Deepwater Program, the "Joint Venture") that the Coast Guard was seeking \$96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with

## NORTHROP GRUMMAN CORPORATION

the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. In May 2008, the Coast Guard advised the Joint Venture that the Coast Guard would support an investigation by the U.S. Department of Justice of the Joint Venture and its subcontractors instead of pursuing its \$96.1 million claim independently. The Department of Justice had previously issued subpoenas related to the Deepwater Program, pursuant to which the company has provided responsive documents. On February 6, 2009, the U.S. Department of Justice notified the U.S. District Court for the Northern District of Texas that the U.S. Government “is not intervening at this time” in what was then a sealed False Claims Act complaint. On February 12, the Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against Integrated Coast Guard Systems, Lockheed Martin Corporation and the company, relating to the 123-foot conversion effort. Based upon the information available to the company to date, the company believes that it has substantive defenses to any potential claims but can give no assurance that the company will prevail in this litigation.

As previously disclosed, in August 2008, the company disclosed to the Antitrust Division of the U.S. Department of Justice possible violations of federal antitrust laws in connection with the bidding process for certain maintenance contracts at a military installation in California. In February 2009, the company and the Department of Justice signed an agreement admitting the company into the Corporate Leniency Program. As a result of the company’s acceptance into the Corporate Leniency Program, the company will be exempt from federal criminal prosecution and criminal fines relating to the matters the company reported to the Department of Justice if the company complies with certain conditions, including its continued cooperation with the government’s investigation and its agreement to make restitution if the government was harmed by the violations.

Based upon the available information regarding matters that are subject to U.S. Government investigations, the company believes that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

*Litigation* – Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs’ motion for class certification, and the plaintiffs appealed the Court’s decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

*Insurance Recovery* – As previously disclosed, the company is pursuing legal action against an insurance provider arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see Note 10). The company commenced the action against Factory Mutual Insurance Company (FM Global) on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the district court issued an order finding that the excess insurance policy provided coverage for the company’s Katrina-related loss. In November 2007, FM Global filed a notice of appeal of the district court’s order. On August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of the company, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its “Flood” exclusion. The Court of Appeals remanded the case to the district court to determine whether the California efficient proximate cause doctrine affords the company coverage under the policy even if the Flood exclusion of the



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policy is unambiguous. The company filed a Petition for Rehearing En Banc, or in the Alternative, For Panel Rehearing with the Court of Appeals on August 27, 2008. On April 2, 2009, the Court of Appeals denied the company's Petition for Rehearing and remanded the case to the district court. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

*Provisions for Legal & Investigative Matters* – Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to the company may vary from earlier estimates as further facts and circumstances become known.

### 10. 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 contract changes, negotiated settlements, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of March 31, 2009, the recognized amounts related to the aforementioned items are not material individually or in the aggregate.

*Environmental Matters* – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future 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 (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of March 31, 2009, the range of reasonably possible future costs for environmental remediation sites is \$191 million to \$269 million, of which \$232 million is accrued in other current liabilities. Factors that could result in changes to the company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. 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, results of operations, or cash flows.

*Hurricane Impacts* – During the third quarter of 2008, the Gulf Coast shipyards were affected by Hurricane Gustav. As a result of the storm, the Gulf Coast shipyards experienced a shut-down for several days, and a resulting minor delay in ship construction throughout the yards; however the storm caused no significant physical damage to the yards. Shipbuilding's sales and operating income in 2008 were reduced by approximately \$100 million and \$13 million, respectively, during the second half of 2008 due to lost production and additional costs resulting from the shut-down.

Also during the third quarter of 2008, a subcontractor's operations in Texas were severely impacted by Hurricane Ike. The subcontractor produces compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor's

## NORTHROP GRUMMAN CORPORATION

resulting production impacts, Shipbuilding's 2008 operating income was reduced by approximately \$23 million during the second half of 2008.

In August 2005, the company's Gulf Coast operations were significantly impacted by Hurricane Katrina and the company's shipyards in Louisiana and Mississippi sustained significant windstorm damage from the hurricane. As a result of the storm, the company incurred costs to replace or repair destroyed or damaged assets, suffered losses under its contracts, and incurred substantial costs to clean up and recover its operations. As of the date of the storm, the company had a comprehensive insurance program that provided coverage for, among other things, property damage, business interruption impact on net profitability, and costs associated with clean-up and recovery. The company has recovered a portion of its Hurricane Katrina claim and expects that its remaining claim will be resolved separately with the two remaining insurers, including FM Global (See Note 9).

The company has full entitlement to any insurance recoveries related to business interruption impacts resulting from these hurricanes. However, because of uncertainties concerning the ultimate determination of recoveries related to business interruption claims, in accordance with company policy, no such amounts are recognized until they are resolved with the insurers. Furthermore, due to the uncertainties with respect to the company's disagreement with FM Global in relation to the Hurricane Katrina claim, no receivables have been recognized by the company in the accompanying condensed consolidated financial statements for insurance recoveries from FM Global.

In accordance with U.S. Government cost accounting regulations affecting the majority of the company's contracts, the cost of insurance premiums for property damage and business interruption coverage, other than "coverage of profit", is an allowable expense that may be charged to contracts. Because a substantial portion of long-term contracts at the shipyards are flexibly-priced, the government customer would benefit from a portion of insurance recoveries in excess of the net book value of damaged assets and clean-up and restoration costs paid by the company. When such insurance recoveries occur, the company is obligated to return a portion of these amounts to the government.

*Co-Operative Agreements* – In 2003, Shipbuilding executed agreements with the states of Mississippi and Louisiana whereby Shipbuilding leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Shipbuilding to these states. As of March 31, 2009, Shipbuilding has fully met its obligations under the Mississippi agreement and has met all but one requirement under the Louisiana agreement. Failure by Shipbuilding to meet the remaining Louisiana commitment would result in reimbursement by Shipbuilding to Louisiana in accordance with the agreement. As of March 31, 2009, Shipbuilding expects that the remaining commitment under the Louisiana agreement will be met based on its most recent business plan.

*Financial Arrangements* – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued principally by insurance companies to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At March 31, 2009, there were \$460 million of unused stand-by letters of credit, \$120 million of bank guarantees, and \$456 million of surety bonds outstanding.

The company has also guaranteed a \$200 million loan made to Shipbuilding in connection with the Gulf Opportunity Zone Industrial Revenue Bonds issued in December 2006. Under the loan agreement, the company guaranteed repayment of the principal and interest to the Trustee and the underlying bondholders.

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

*U.S. Government Claims* – Annually, the company files cost submissions to the U.S. Government to support its claimed amounts of overhead, home office and other indirect costs. On occasions, these cost submissions result in

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questioned costs, claims and or penalty assertions by the U.S. Government which give rise to dispute resolution in various forms. The company believes it has adequately provided for the ultimate outcome of any such matters based on, among other considerations, its assessment of the relevant government regulations. The company does not believe that the outcome of any such matters would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

*Operating Leases* – Rental expense for operating leases, excluding discontinued operations, for the three months ended March 31, 2009 and 2008 was \$141 million and \$139 million, respectively. These amounts are net of immaterial amounts of sublease rental income.

*Related Party Transactions* – For all periods presented, the company had no material related party transactions.

**11. RETIREMENT BENEFITS**

The cost of the company’s pension plans and medical and life benefits plans is shown in the following table:

<i>\$ in millions</i>	Three Months Ended March 31			
	Pension Benefits		Medical and Life Benefits	
	2009	2008	2009	2008
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 165	\$ 181	\$ 12	\$ 14
Interest cost	337	334	41	41
Expected return on plan assets	(389)	(475)	(12)	(16)
Amortization of:				
Prior service cost (credit)	12	10	(15)	(16)
Net loss from previous years	85	6	7	5
<b>Net periodic benefit cost</b>	<b>\$ 210</b>	<b>\$ 56</b>	<b>\$ 33</b>	<b>\$ 28</b>
<b>Defined contribution plans cost</b>	<b>\$ 82</b>	<b>\$ 75</b>		

*Employer Contributions* – In 2009, the company expects to contribute the required minimum funding level of approximately \$126 million to its pension plans and approximately \$178 million to its other postretirement benefit plans and also expects to make additional voluntary pension contributions totaling approximately \$500 million. As of March 31, 2009, contributions of \$227 million and \$25 million have been made to the company’s pension plans and its medical and life benefit plans, respectively.

*Defined Contribution Plans* – The company also sponsors 401(k) defined contribution plans in which most employees are eligible to participate, including certain bargaining unit employees. Company contributions for most plans are based on a cash matching of employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. The company also participates in a multiemployer plan for certain of the company’s union employees. In addition to the 401(k) defined contribution benefit, non-union represented employees hired after June 30, 2008, are eligible to participate in a defined contribution program in lieu of a defined benefit pension plan. The company’s contributions to these defined contribution plans for the three months ended March 31, 2009, and 2008, were \$82 million, and \$75 million, respectively.

**12. STOCK COMPENSATION PLANS**

At March 31, 2009, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan, the 1993 Long-Term Incentive Stock Plan, both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors and 1995 Stock Plan for Non-Employee

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Directors as amended. All of these plans were approved by the company's shareholders. Share-based awards under the employee plans consist of stock option awards (Stock Options) and restricted stock awards (Stock Awards).

**Compensation Expense**

Total pre-tax stock-based compensation for the three months ended March 31, 2009, and 2008, was \$35 million, and \$44 million, respectively, of which \$5 million, and \$4 million related to Stock Options and \$30 million, and \$40 million, related to Stock Awards, respectively. Tax benefits recognized in the condensed consolidated statements of operations and comprehensive income for stock-based compensation during the three months ended March 31, 2009, and 2008, were \$14 million, and \$17 million, respectively. In addition, the company realized tax benefits of \$245 thousand and \$20 million from the exercise of Stock Options and \$47 million and \$94 million from the issuance of Stock Awards in the three months ended March 31, 2009 and 2008, respectively.

At March 31, 2009, there was \$260 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which \$34 million relates to Stock Options and \$226 million relates to Stock Awards. These amounts are expected to be charged to expense over a weighted-average period of 1.6 years.

**Stock Options**

The fair value of each of the company's Stock Option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the company's Stock Option awards is expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. Expected volatility is based on an average of (1) historical volatility of the company's stock and (2) implied volatility from traded options on the company's stock. The risk-free rate for periods within the contractual life of the Stock Option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The company uses historical data to estimate future forfeitures. The expected term of awards granted is derived from historical experience under the company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

The significant weighted-average assumptions relating to the valuation of the company's Stock Options for the three months ended March 31, 2009 and 2008, were as follows:

	2009	2008
Dividend yield	3.3%	1.8%
Volatility rate	25%	20%
Risk-free interest rate	1.7%	2.8%
Expected option life (years)	6	6

The weighted-average grant date fair value of Stock Options granted during the three months ended March 31, 2009 and 2008, was \$7 and \$15, per share, respectively.

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Stock Option activity for the three months ended March 31, 2009, was as follows:

	Shares Under Option (In thousands)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ in millions)
Outstanding at January 1, 2009	13,481	\$54	4.2 years	\$18
Granted	2,711	45		
Exercised	(226)	46		
Cancelled and forfeited	(258)	55		
<b>Outstanding at March 31, 2009</b>	<b>15,708</b>	<b>\$53</b>	<b>4.5 years</b>	<b>\$14</b>
Vested and expected to vest in the future at March 31, 2009	15,511	\$52	4.3 years	\$14
Exercisable at March 31, 2009	11,807	\$52	3.6 years	\$14
Available for grant at March 31, 2009	8,694			

The total intrinsic value of options exercised during the three months ended March 31, 2009 and 2008, was \$618 thousand and \$51 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at March 31, 2009 (for outstanding options), less the applicable exercise price.

**Stock Awards**

Compensation expense for Stock Awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of Stock Awards is determined based on the closing market price of the company's common stock on the grant date. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. In the table below, the share adjustment resulting from the final performance measure is considered granted in the period that the related grant is vested. During the three months ended March 31, 2009, 2.5 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of \$111 million and a grant date fair value of \$161 million. During the three months ended March 31, 2008, 2.9 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of \$233 million and a grant date fair value of \$155 million. There were 1.6 million Stock Awards granted in the three months ended March 31, 2008, with a weighted-average grant date fair value of \$75 per share.

Stock Award activity for the three months ended March 31, 2009, was as follows:

	Stock Awards (In thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2009	3,276	\$75	1.4 years
Granted (including performance adjustment on shares vested)	2,350	45	
Vested	(185)	66	
Forfeited	(61)	74	
<b>Outstanding at March 31, 2009</b>	<b>5,380</b>	<b>\$62</b>	<b>1.9 years</b>
Available for grant at March 31, 2009	2,034		

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**13. INCOME TAXES**

The company's effective tax rates on income from continuing operations were 34.1 percent and 35.7 percent for the three months ended March 31, 2009 and 2008, respectively. The company accounts for uncertain tax positions in accordance with the recognition standards established by Financial Accounting Standards Board Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes.

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 various state and foreign jurisdictions. The IRS is currently examining the company's U.S. income tax returns for 2001-2006. In addition, open tax years related to state and foreign jurisdictions remain subject to examination, but are not material.

In 2008, the company reached a tentative partial settlement agreement with Internal Revenue Service (IRS) Appeals on substantially all of the remaining issues from the IRS' examination of the company's tax returns for the years ended 2001-2003. This agreement is subject to review by the Congressional Joint Committee on Taxation (Joint Committee). Although the final outcome is not determinable until the Joint Committee completes its review during 2009, it is reasonably possible that a reduction to unrecognized tax benefits of up to \$59 million may occur.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Northrop Grumman Corporation  
Los Angeles, California

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of March 31, 2009, and the related condensed consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2009 and 2008. 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, 2008, and the related consolidated statements of operations and comprehensive (loss) income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 10, 2009, 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, 2008 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

Los Angeles, California  
April 21, 2009

## NORTHROP GRUMMAN CORPORATION

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

#### OVERVIEW

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as the company's 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, which provides a more thorough discussion of the company's products and services, industry outlook, and business trends. See discussion of consolidated results starting on page I-22 and discussion of results by segment starting on page I-25.

Northrop Grumman provides technologically advanced, innovative products, services, and integrated solutions in information and technical services, aerospace, electronics, and shipbuilding to its global customers. As a prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and commercial technology programs in the U.S. and abroad. Northrop Grumman conducts most of its business with the U.S. Government, principally the Department of Defense (DoD). The company also conducts business with local, state, and foreign governments and has domestic and international commercial sales.

*Business Outlook and Operational Trends* – There have been no material changes to the company's products and services, industry outlook, or business trends from those disclosed in the company's 2008 Form 10-K. While the U.S. and global economies are still experiencing some level of economic uncertainty, the adverse equity market conditions that led to the declines in the company's stock price have eased somewhat and the company's market capitalization exceeded its book value by approximately 20% as of March 31, 2009.

*Economic Opportunities, Challenges, and Risks* – While the upward trend in overall defense spending may slow, the company does not expect the overall demand for defense products or services to change significantly in the foreseeable future. Given the current era of irregular warfare, the company expects an increase in investment in persistent awareness with intelligence, surveillance and reconnaissance (ISR) systems, cyber warfare, and expanding the information available for the warfighter to make timely decisions. Battlefield lessons from Iraq and Afghanistan should influence force structure and spending decisions as the DoD looks to enhance current readiness. Many allied countries are focusing their development and procurement efforts on advanced electronics and information systems capabilities to enhance their interoperability with U.S. forces. The size of future U.S. and international defense budgets is expected to remain responsive to the international security environment. The fiscal year 2010 budget informally submitted by the President of the United States requests \$533.7 billion in discretionary authority for the DoD base budget, representing approximately a 4 percent increase over the projected enacted level for fiscal 2009. It is possible the new Administration's informal budget will include reductions in certain programs in which the company participates or for which the company expects to compete, however the company believes that spending on recapitalization and modernization of homeland security and defense assets will continue to be a national priority, with particular emphasis on areas involving intelligence, persistent surveillance, directed energy systems, cyber security, energy-saving technologies and non-conventional warfare capabilities.

*Recent Developments in U.S. Cost Accounting Standards (CAS) Pension Recovery Rules* – The CAS Board published an Advance Notice of Proposed Rulemaking (ANPRM) on September 2, 2008 and plans on issuing a second ANPRM prior to the issuance of the Notice of Proposed rulemaking. The first ANPRM has provided a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 (PPA) requirements. The proposed CAS rule includes provisions for a transition period from the existing CAS requirement to a partially harmonized CAS requirement. After the PPA effective date for "eligible government contractors" (including Northrop Grumman), which were granted a delay in their PPA effective date, the proposed rule would partially mitigate the near-term mismatch between PPA-amended ERISA minimum contribution requirements which would not yet be recoverable under CAS. However, unless the final rule is revised, government contractors maintaining defined benefit pension plans in general would still experience a timing



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mismatch between required contributions and the CAS recoverable pension costs. It is anticipated that contractors will be entitled to seek an equitable adjustment to prices of previously negotiated contracts subject to CAS for increased contract costs which result from mandatory changes required by the final rule. The CAS Board is required to issue its final rule no later than January 1, 2010.

Certain notable events or activities during the three months ended March 31, 2009, included the following:

*Financial highlights*

- n Sales increased 8 percent to \$8.3 billion.
- n Total backlog at \$76.9 billion.
- n Share repurchases totaled \$165 million.

*Notable events*

- n LHD-8 completion of U.S. Navy acceptance sea trials.
- n Voluntary pension pre-funding contributions totaling \$214 million.
- n Streamlining of the company's organizational structure from seven to five operating segments.
- n Realignment of certain logistics, services, and technical support programs and assets from Information Systems and Electronic Systems to Technical Services.
- n Settlement in April 2009 of the Department of Justice microelectronics claim and the company's claim against the U.S. Government for the termination of the TSSAM program. See Note 9 to the condensed consolidated financial statements in Part I, Item 1.

**CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS**

*Use of Estimates* – The company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of the financial statements requires management to make estimates and assumptions 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 on the basis of the most current and best available information and actual results could differ materially from those estimates.

**CONSOLIDATED OPERATING RESULTS**

Selected financial highlights are presented in the table below.

<i>\$ in millions, except per share</i>	Three Months Ended	
	March 31	
	2009	2008
Sales and service revenues	<b>\$8,320</b>	\$7,724
Cost of sales and service revenues	<b>6,916</b>	6,522
General and administrative expenses	<b>749</b>	738
Operating income	<b>655</b>	464
Interest expense	<b>(73)</b>	(77)
Other, net	<b>8</b>	22
Federal and foreign income taxes	<b>201</b>	146
Diluted earnings per share from continuing operations	<b>1.17</b>	0.76
Net cash (used in) provided by operating activities	<b>(172)</b>	194

**NORTHROP GRUMMAN CORPORATION****Sales and Service Revenues**

Sales and service revenues consist of the following:

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Product sales	<b>\$4,570</b>	\$4,394
Service revenues	<b>3,750</b>	3,330
<b>Sales and service revenues</b>	<b>\$8,320</b>	\$7,724

Sales and service revenues for the three months ended March 31, 2009, increased \$596 million, or 8 percent, as compared with the same period in 2008, reflecting higher sales in all operating segments. Sales and service revenues in the three months ended March 31, 2008, were impacted by a sales step back of \$134 million on the LHD-8 program. See the Segment Operating Results section below for further information.

**Cost of Sales and Service Revenues**

Cost of sales and service revenues is comprised of the following:

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
<b>Cost of Sales and Service Revenues</b>		
Cost of product sales	<b>\$3,635</b>	\$3,729
<i>% of product sales</i>	<b>79.5%</b>	84.9%
Cost of service revenues	<b>3,281</b>	2,793
<i>% of service revenues</i>	<b>87.5%</b>	83.9%
General and administrative expenses	<b>749</b>	738
<i>% of total sales and service revenues</i>	<b>9.0%</b>	9.6%
<b>Cost of sales and service revenues</b>	<b>\$7,665</b>	\$7,260

*Cost of Product Sales and Service Revenues* – Cost of product sales for the three months ended March 31, 2009 decreased \$94 million, or 3 percent over the same period in 2008 and decreased 540 basis points as a percentage of products sales over the same period. During the first quarter of 2008, the company recorded a \$326 million pre-tax charge at Shipbuilding for cost growth on the LHD-8 and other Shipbuilding programs. See Segment Operating Results section below for further information.

Cost of service revenues for the three months ended March 31, 2009 increased \$488 million, or 17 percent over the same period in 2008 and increased 360 basis points as a percentage of service revenues over the same period principally due to an increase in net pension expense as a result of negative returns on plan assets in 2008.

*General and Administrative Expenses* – In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs on government contracts. For most components of the company, these costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations. General and administrative expenses as a percentage of total sales and service revenues decreased to 9.0 percent for the three months ended March 31, 2009 from 9.6 percent for the comparable 2008 period.

**Operating Income**

The company considers operating income to be an important measure for evaluating its operating performance and, as is typical in the industry, defines operating income as revenues less the related cost of producing the

**NORTHROP GRUMMAN CORPORATION**

revenues and general and administrative expenses. Operating income for the company is further evaluated for each of the business segments in which the company operates.

Management of the company internally manages its operations by reference to “segment operating income.” Segment operating income is defined as operating income before unallocated expenses and net pension adjustment, neither of which affect the segments, and the reversal of royalty income, which is classified as other income for financial reporting purposes. Segment operating income is one of the key metrics management uses to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under U.S. GAAP, and may not be defined and calculated by other companies in the same manner.

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

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Segment operating income	\$791	\$458
Unallocated expenses	(53)	(32)
Net pension adjustment	(76)	59
Royalty income adjustment	(7)	(21)
<b>Total operating income</b>	<b>\$655</b>	<b>\$464</b>

*Segment Operating Income* – Segment operating income for the three months ended March 31, 2009, increased \$333 million, or 73 percent, as compared to the same period in 2008. Segment operating income was 9.5 percent and 5.9 percent of sales and service revenues for the three months ended March 31, 2009, and 2008, respectively. The increase in operating income is primarily due to a \$326 million pre-tax charge on the LHD-8 and other Shipbuilding programs recorded in the first quarter of 2008. See the Segment Operating Results section below and Note 6 to the condensed consolidated financial statements in Part I, Item 1 for further information.

*Unallocated Expenses* – Unallocated 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 (FAR), and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated expenses for the three months ended March 31, 2009, increased \$21 million, or 66 percent, as compared to the same period in 2008. The increase is primarily the result of higher post-retirement benefit plan costs and litigation expenses.

*Net Pension Adjustment* – Net pension adjustment reflects the difference between pension expense determined in accordance with U.S. GAAP and pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended March 31, 2009, and 2008, pension expense determined in accordance with U.S. GAAP was \$210 million and \$56 million, respectively, and pension expense determined in accordance with CAS amounted to \$134 million and \$115 million, respectively. The increases in GAAP and CAS pension expense are primarily the result of negative returns on plan assets in 2008.

*Royalty Income Adjustment* – Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes. See *Other, net* below.

**Interest Expense**

Interest expense for the three months ended March 31, 2009, decreased \$4 million, as compared with the same period in 2008. The decrease is primarily due to the conversion of the majority of the mandatorily redeemable convertible preferred stock in the first quarter of 2008, which reduced the related dividends paid during the 2008

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period (recorded as interest expense in the accompanying condensed consolidated statements of operations and comprehensive income). See Note 4 to the condensed consolidated financial statements in Part I, Item 1.

### **Other, net**

Other, net for the three months ended March 31, 2009, decreased \$14 million as compared with the same period in 2008. The first quarter of 2008 included \$19 million in royalty income at Electronic Systems. Other, net includes interest income for all periods presented.

### **Federal and Foreign Income Taxes**

The company's effective tax rate on earnings from continuing operations for the three months ended March 31, 2009, was 34.1 percent compared with 35.7 percent for the same period in 2008.

### **Discontinued Operations**

Discontinued operations for the three months ended March 31, 2008, represents the net operating results of the Electro-Optical Systems business formerly reported in the Electronic Systems segment. See Note 5 to the condensed consolidated financial statements in Part I, Item 1.

### **Diluted Earnings Per Share**

Diluted earnings per share from continuing operations for the three months ended March 31, 2009, were \$1.17 per share, as compared with \$.76 per share in the same period in 2008. Earnings per share are based on weighted average diluted shares outstanding of 332.1 million for the three months ended March 31, 2009, and 349.3 million for the same period in 2008. See Note 7 to the condensed consolidated financial statements in Part I, Item 1.

### **Net Cash (Used In) Provided by Operating Activities**

For the three months ended March 31, 2009, net cash used in operating activities was \$172 million compared to \$194 million net cash provided by operating activities for the same period in 2008. The decrease of \$366 million was primarily due to \$214 million discretionary pension pre-funding and higher trade working capital requirements during the first three months of 2009.

## SEGMENT OPERATING RESULTS

### **Basis of Presentation**

In January 2009, the company streamlined its organizational structure by reducing the number of operating segments from seven to five. The five segments are Information Systems, which combines the former Information Technology and Mission Systems segments; Aerospace Systems, which combines the former Integrated Systems and Space Technology segments; Electronic Systems; Shipbuilding; and Technical Services. Intersegment sales and intersegment operating (loss) income between the former Integrated Systems and Space Technology segments, and between the former Information Technology and Mission Systems segments have been eliminated as part of the realignment. The creation of the Information Systems and Aerospace Systems segments is intended to strengthen alignment with customers, improve the company's ability to execute on programs and win new business, and enhance cost competitiveness.

During the first quarter of 2009, the company realigned certain logistics, services, and technical support programs and assets from the Information Systems and Electronic Systems segments to the Technical Services segment. This realignment is intended to strengthen the company's core capability in aircraft and electronics maintenance, repair and overhaul, life cycle optimization, and training and simulation services.

The sales and segment operating income in the following tables have been revised to reflect the above realignments for all periods presented.

During the first quarter of 2009, the company transferred certain optics and laser programs from Information Systems to Aerospace Systems. As the operating results of this business were not considered material, the prior year sales and operating income were not reclassified to reflect this business transfer.

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<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
<b>Sales and Service Revenues</b>		
Information Systems	\$2,491	\$2,298
Aerospace Systems	2,456	2,361
Electronic Systems	1,788	1,545
Shipbuilding	1,375	1,264
Technical Services	632	558
Intersegment eliminations	(422)	(302)
Total sales and service revenues	<b>\$8,320</b>	<b>\$7,724</b>
<b>Segment Operating Income</b>		
Information Systems	\$ 223	\$ 212
Aerospace Systems	258	252
Electronic Systems	229	209
Shipbuilding	84	(218)
Technical Services	37	29
Intersegment eliminations	(40)	(26)
Total segment operating income	<b>\$ 791</b>	<b>\$ 458</b>

*Operating Performance Assessment and Reporting* – The company manages and assesses the performance of its businesses based on its performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the company’s critical accounting policies and estimation process. Based on this approach and the nature of the company’s operations, the discussion of results of operations generally focuses around the company’s five segments versus distinguishing between products and services. Product sales are predominantly generated in the Aerospace Systems, Electronic Systems and Shipbuilding segments, while the majority of the company’s service revenues are generated by the Information Systems and Technical Services segments.

*Sales and Service Revenues* – Period-to-period sales reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in terms of volume. Unless otherwise described, volume generally refers to increases (or decreases) in reported revenues incurred due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding income change based on the margin rate for a particular contract.

*Segment Operating Income* – Segment operating income reflects the aggregate performance results of contracts within a business area or segment. Excluded from this measure are certain costs not directly associated with contract performance, including the portion of corporate expenses such as management and administration, legal, environmental, certain compensation and other retiree benefits, and other expenses not considered allowable or allocable under applicable CAS regulations and the FAR, and therefore not allocated to the segments. Changes in segment operating income are typically expressed in terms of volume, as discussed above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to total estimated costs at completion of the contract (EAC) that reflect improved (or deteriorated) operating performance on a particular contract. Operating income changes are accounted for on a cumulative to date basis at the time an EAC change is recorded.

Operating income may also be affected by, among other things, the effects of workforce stoppages, the effects of natural disasters (such as hurricanes and earthquakes), the resolution of disputed items with the customer, recovery of insurance proceeds, and other discrete events. At the completion of a long-term contract, any originally estimated costs not incurred or reserves not fully utilized (such as warranty reserves) could also impact

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contract earnings. Where such items have occurred, and the effects are material, a separate description is provided.

**Contract Descriptions**

For convenience, a brief description of certain programs discussed in this Form 10-Q is included in the "Glossary of Programs" beginning on page I-34.

**INFORMATION SYSTEMS****Business Description**

Information Systems is a leading global provider of advanced solutions for the DoD, national intelligence, federal, civilian, state and local agencies, and commercial customers. Products and services are focused on the fields of command, control, communications, computers and intelligence (C4I), missile and air defense, airborne reconnaissance, intelligence management and processing, decision support systems, information technology (IT) systems engineering and systems integration. The segment consists of six areas of business: Command, Control and Communications (C3); Intelligence, Surveillance, and Reconnaissance (ISR); Intelligence; Civilian Agencies; Commercial, State & Local (CS&L); and Defense.

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Sales and Service Revenues	\$2,491	\$2,298
Segment Operating Income	223	212
<i>As a percentage of segment sales</i>	9.0%	9.2%

**Sales and Service Revenues**

Information Systems revenue for the three months ended March 31, 2009, increased \$193 million, or 8 percent, as compared with the same period in 2008. The increase is primarily due to \$72 million in higher sales at C3, \$62 million in higher sales at Intelligence, and \$48 million in higher sales at ISR, partially offset by \$39 million in lower sales at CS&L. The increase at C3 is due to ramp-up on the Trailer Mounted Support System program, higher orders on the Integrated Base Defense Security System program, and ramp-up on the Airborne and Maritime/Fixed Stations Joint Tactical Radio Systems program. The increases at ISR and Intelligence are due to new and increased activity on existing restricted programs as well as the acquisition of 3001 International, Inc. in the fourth quarter of 2008. The decrease at CS&L is due to decreased activity on the New York City Wireless (NYCWIn) program.

**Segment Operating Income**

Operating income at Information Systems for the three months ended March 31, 2009, increased \$11 million, or 5 percent, as compared with the same period in 2008. The increase is primarily due to \$17 million from the higher sales volume discussed above, partially offset by lower performance results at C3 and CS&L. The decrease in operating income as a percentage of sales reflects lower performance on CS&L programs.

**AEROSPACE SYSTEMS****Business Description**

Aerospace Systems is a premier developer, integrator, producer and supporter of manned and unmanned aircraft, spacecraft, high-energy laser systems, microelectronics and other systems and subsystems critical to maintaining the nation's security and leadership in science and technology. These systems are used, primarily by government customers, in many different mission areas including intelligence, surveillance and reconnaissance; communications; battle management; strike operations; electronic warfare; missile defense; earth observation; space science; and space exploration. The segment consists of four areas of business: Strike and Surveillance

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Systems (S&SS), Space Systems (SS), Battle Management and Engagement Systems (BM&ES), and Advanced Programs and Technology (AP&T).

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Sales and Service Revenues	<b>\$2,456</b>	\$2,361
Segment Operating Income	<b>258</b>	252
<i>As a percentage of segment sales</i>	<b>10.5%</b>	10.7%

**Sales and Service Revenues**

Aerospace Systems revenue for the three months ended March 31, 2009, increased \$95 million, or 4 percent, as compared with the same period in 2008. The increase is primarily due to \$70 million in higher sales at S&SS, and \$46 million in higher sales volume at SS, partially offset by \$13 million in lower sales at AP&T. The increase at S&SS is primarily due to higher sales volume associated with the F-35, Global Hawk High-Altitude Long-Endurance (HALE) Systems, F/A-18 and B-2 programs, partially offset by decreased activity on the Intercontinental Ballistic Missile (ICBM) program. The increase at SS is primarily due to the ramp-up of certain restricted programs awarded in 2008. The decrease at AP&T is due to the termination of the Air Mobility Tanker program in the fourth quarter of 2008 and lower sales volume on the Airborne Laser (ABL) as the program transitions from the hardware integration phase to test phase, partially offset by higher sales volume associated with the Unmanned Combat Air System Carrier Demonstration (UCAS-D) program. Higher sales volume on the Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System and Joint Surveillance Target Attack Radar System (Joint STARS) at BM&ES were offset by lower sales volume on the E-2D Advanced Hawkeye and EA-18G programs.

**Segment Operating Income**

Operating income at Aerospace Systems for the three months ended March 31, 2009, increased \$6 million, or 2 percent, as compared with the same period in 2008, due principally to the higher sales volume discussed above. The decrease in operating income as a percentage of sales reflects the impact of higher positive program adjustments in the first quarter of 2008.

**ELECTRONIC SYSTEMS****Business Description**

Electronic Systems is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronic Systems provides systems to U.S. and international customers for such applications as airborne surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space sensing, intelligence processing, air traffic control, air and missile defense, communications, mail processing, biochemical detection, ship bridge control, and shipboard components. The segment is composed of seven areas of business: Aerospace Systems; Defensive Systems; Government Systems; Land Forces; Naval & Marine Systems; Navigation Systems; and Space & Intelligence, Surveillance & Reconnaissance (Space & ISR) Systems.

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Sales and Service Revenues	<b>\$1,788</b>	\$1,545
Segment Operating Income	<b>229</b>	209
<i>As a percentage of segment sales</i>	<b>12.8%</b>	13.5%

**NORTHROP GRUMMAN CORPORATION****Sales and Service Revenues**

Electronic Systems revenue for the three months ended March 31, 2009, increased \$243 million, or 16 percent, as compared with the same period in 2008. The increase is primarily due to \$66 million higher sales in Defensive Systems, \$45 million in Space & ISR Systems, \$34 million in higher sales in Government Systems, \$30 million in higher sales in Aerospace Systems, and \$26 million in higher sales in Naval & Marine Systems. The increase in Defensive Systems is due to higher deliveries associated with the Large Aircraft Infrared Countermeasures (LAIRCM) Indefinite Delivery Indefinite Quantity (IDIQ) program. The increase in Space & ISR Systems is due to higher volume on the Space Based Infrared System (SBIRS) program. The increase in Government Systems is due to higher volume on postal automation programs. The increase in Aerospace Systems is due to higher volume on the ship-board Cobra Judy replacement radar, MESA Korea, and intercompany programs. The increase in Naval & Marine Systems is due to higher volume on power and propulsion systems for the *Virginia*-class submarine program and increased volume on certain restricted programs.

**Segment Operating Income**

Operating income at Electronic Systems for the three months ended March 31, 2009, increased \$20 million, or 10 percent, as compared with the same period in 2008. The increase in operating income includes a \$15 million net change in royalty income related to patent infringement settlements. Excluding the 2008 settlements, operating income for the three months ended March 31, 2009 increased \$35 million due primarily to the higher sales volume discussed above.

**SHIPBUILDING****Business Description**

Shipbuilding is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Shipbuilding is also one of the nation's leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels of all types. The segment includes the following areas of business: Aircraft Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense; Fleet Support; Commercial; and Services & Other.

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Sales and Service Revenues	\$1,375	\$1,264
Segment Operating Income	84	(218)
<i>As a percentage of segment sales</i>	6.1%	-17.2%

**Sales and Service Revenues**

Shipbuilding revenue for the three months ended March 31, 2009, increased \$111 million, or 9 percent, as compared with the same period in 2008. The increase is primarily due to \$128 million in higher sales at Expeditionary Warfare, \$28 million in higher sales at Submarines, and \$25 million in higher sales at Aircraft Carriers, partially offset by \$81 million in lower sales at Surface Combatants. The increase in Expeditionary Warfare is primarily due to the first quarter 2008 sales step back of \$134 million on the LHD-8 program during the same period in 2008. The increase in Submarines is due to higher sales volume on the construction of the second and third block of the *Virginia*-class submarines. The increase in Aircraft Carriers is primarily due to higher sales volume on the *Gerald R. Ford* construction, *USS Enterprise* Extended Dry-docking Selected Restricted Availability (EDSRA), and *USS Roosevelt* Refueling and Complex Overhaul, partially offset by lower volume on the *Bush* construction and *USS Carl Vinson* refueling. The decrease in Surface Combatants is primarily due to lower sales volume on the DDG 51 program.



**NORTHROP GRUMMAN CORPORATION****Segment Operating Income**

Operating income at Shipbuilding for the three months ended March 31, 2009, increased \$302 million as compared with the same period in 2008. The increase is primarily due to the first quarter 2008 pre-tax charge of \$326 million on LHD-8 and other programs. During the first quarter of 2009, the company recognized a \$48 million favorable adjustment on the LHD-8 program due to risk retirement for earlier than expected completion of U.S. Navy acceptance sea trials and increased escalation recovery. These increases were more than offset by lower performance of \$38 million each on the DDG 51 program and LPD 22 due to cost growth.

**TECHNICAL SERVICES****Business Description**

Technical Services is a leading provider of logistics, infrastructure, and sustainment support, while also providing a wide array of technical services, including training and simulation. The segment consists of three areas of business: Systems Support (SSG); Training & Simulation (TSG); and Life Cycle Optimization & Engineering (LCOE).

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Sales and Service Revenues	\$632	\$558
Segment Operating Income	37	29
<i>As a percentage of segment sales</i>	5.9%	5.2%

**Sales and Service Revenues**

Technical Services revenue for the three months ended March 31, 2009, increased \$74 million, or 13 percent, as compared with the same period in 2008. The increase is primarily due to \$55 million in higher sales at Life Cycle Optimization & Engineering and \$39 million in higher sales at Training & Simulation, partially offset by \$14 million lower sales at Systems Support. The increase at LCOE is due to additional volume on the Hunter CLS and CNTPO programs. The increase at TSG is driven by higher demand for various training and simulation programs including the African Contingency Operations Training Assistance, Joint Warfighting Center support, and Global Linguists Solutions programs. The decrease at SSG is primarily due to the completion of the Joint Base Operations Support (JBOSC) program in the fourth quarter of 2008.

**Segment Operating Income**

Operating income at Technical Services for the three months ended March 31, 2009, increased \$8 million, or 28 percent, as compared with the same period in 2008. The increase is due to \$4 million from the higher sales volume discussed above and \$4 million in improved performance on programs.

**BACKLOG****Definition**

Total backlog at March 31, 2009, was approximately \$77 billion. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made.

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Backlog consisted of the following at March 31, 2009, and December 31, 2008:

<i>\$ in millions</i>	March 31, 2009			December 31, 2008		
	Funded	Unfunded	Total Backlog	Funded	Unfunded	Total Backlog
Information Systems	\$ 5,188	\$ 4,549	\$ 9,737	\$ 5,310	\$ 4,672	\$ 9,982
Aerospace Systems	8,967	21,315	30,282	7,648	22,883	30,531
Electronic Systems	8,355	2,355	10,710	8,391	2,124	10,515
Shipbuilding	13,415	8,411	21,826	14,205	8,148	22,353
Technical Services	1,728	2,595	4,323	1,840	2,831	4,671
Total backlog	\$37,653	\$39,225	\$76,878	\$37,394	\$40,658	\$78,052

**New Awards**

The estimated value of contract awards included in backlog during the three months ended March 31, 2009, was approximately \$7.1 billion. Significant new awards during this period include \$637 million for *Virginia*-class MPU & SSTG programs, \$374 million for construction preparation of the *Gerald R. Ford* class aircraft carrier, \$325 million for the B-2 program, \$255 million for LAIRCM IDIQ, and various restricted awards.

In the three months ended March 31, 2008, the company was awarded a \$1.5 billion contract by the U.S. Air Force to replace its aerial refueling tanker fleet. However, the losing bidder for the contract successfully protested the award decision by the U.S. Air Force, and in the fourth quarter of 2008, the company reduced total backlog by \$1.5 billion to reflect the termination of the U.S. Air Force refueling tanker program, pending a recompetes by the DoD.

**LIQUIDITY AND CAPITAL RESOURCES**

The company endeavors to ensure the most efficient conversion of operating results into cash for deployment in growing its businesses and maximizing shareholder value. The company actively manages its capital resources through working capital improvements, capital expenditures, strategic business acquisitions, investment in independent research and development, debt repayments, voluntary pension contributions, and returning cash to its shareholders through dividend payments and repurchases of common stock.

Company management uses various financial measures to assist in capital deployment decision making including net cash provided by operations and free cash flow. Management believes these measures are useful to investors in assessing the company's financial performance.

The table below summarizes key components of cash flow (used in) provided by operating activities.

<i>\$ in millions</i>	Three Months Ended	
	2009	2008
Net earnings	\$ 389	\$ 264
Non-cash income and expense <sup>1</sup>	184	214
Retiree benefit funding (in excess of) less than expense	(5)	31
Trade working capital increase	(916)	(450)
Change in income tax balances	176	138
Cash used in discontinued operations		(3)
Net cash (used in) provided by operating activities	\$(172)	\$ 194

(1) Includes depreciation and amortization and stock-based compensation expense.

**NORTHROP GRUMMAN CORPORATION****Free Cash Flow**

Free cash flow represents cash from operating activities less capital expenditures and outsourcing contract and related software costs. The company believes free cash flow is a useful measure for investors as it reflects the ability of the company to grow by funding strategic business acquisitions and return value to shareholders through repurchasing its shares and paying dividends.

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

The table below reconciles net cash (used in) provided by operating activities to free cash flow:

<i>\$ in millions</i>	Three Months Ended March 31	
	2009	2008
Net cash (used in) provided by operating activities	<b>\$(172)</b>	\$ 194
Less:		
Capital expenditures	<b>(162)</b>	(143)
Outsourcing contract & related software costs	<b>(18)</b>	(35)
Free cash flow	<b>\$(352)</b>	\$ 16

**Cash Flows**

The following is a discussion of the company's major operating, investing and financing activities for the three months ended March 31, 2009 and 2008, respectively, as classified on the condensed consolidated statements of cash flows located in Part I, Item 1.

*Operating Activities* – Cash flows from operating activities for the three months ended March 31, 2009, decreased \$366 million as compared to the same period in 2008 and reflect a \$214 million discretionary pension pre-funding and additional trade working capital requirements in the 2009 period.

For 2009, cash generated from operations supplemented by borrowings under credit facilities, if necessary, is expected to be sufficient to service debt and contract obligations, finance capital expenditures, fund required and voluntary benefits contributions, continue acquisition of shares under the share repurchase program, and continue paying dividends to the company's shareholders. Additionally, were longer-term funding to be desired, the company believes it could, under current market conditions, access the capital markets for debt financing.

*Investing Activities* – Net cash used in investing activities for the three months ended March 31, 2009, was \$176 million compared to \$148 million in the same period of 2008. The increase is primarily due to the release in 2008 of \$26 million in restricted cash related to the Gulf Opportunity Zone Industrial Development Revenue Bonds (see Note 10 to the condensed consolidated financial statements in Part I, Item 1).

*Financing Activities* – Net cash used in financing activities for the three months ended March 31, 2009, was \$274 million compared to \$580 million in the same period of 2008. The decrease is primarily due to \$450 million in lower share repurchases, partially offset by \$61 million lower proceeds from stock option exercises, \$44 million less in excess tax benefits from stock-based compensation and \$34 million in lower net borrowings under lines of credit. See Note 7 to the condensed consolidated financial statements in Part I, Item 1 for a discussion concerning the company's common stock repurchases.

**NEW ACCOUNTING STANDARDS**

See Note 2 to the condensed consolidated financial statements in Part I, Item 1 for information related to new accounting standards.

**NORTHROP GRUMMAN CORPORATION**

**FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

Statements in this Form 10-Q that are in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “trend,” “estimate,” “forecast,” “assume,” “intend,” “plan,” “guidance,” “anticipate,” “outlook,” “preliminary,” and variations thereof and similar terms are intended to be “forward-looking statements” as defined by federal securities law. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made, but that are subject to the risks and uncertainties identified under Risk Factors in the company’s 2008 Form 10-K as amended or supplemented by the information, if any, in Part II, Item 1A below, that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

The company intends that all forward-looking statements made will be subject to the safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based upon, among other things, the company’s assumptions with respect to:

- n impact of domestic and global economic uncertainties on financial markets, access to capital, value of goodwill or other assets;
- n changes in government funding, including with respect to the 2010 budget of the U.S. Government;
- n future revenues;
- n expected program performance and cash flows;
- n compliance with technical, operational, and quality requirements;
- n returns or losses on pension plan assets and variability of pension actuarial and related assumptions and regulatory requirements;
- n the outcome of litigation, claims, appeals, bid protests, and investigations;
- n hurricane-related insurance recoveries;
- n environmental remediation;
- n acquisitions and divestitures of businesses;
- n performance issues with, and financial viability of, joint ventures, and other business arrangements;
- n performance issues with, and financial viability of, key suppliers and subcontractors;
- n product performance and the successful execution of internal plans;
- n successful negotiation of contracts with labor unions;
- n the availability and retention of skilled labor;
- n allowability and allocability of costs under U.S. Government contracts;
- n effective tax rates and timing and amounts of tax payments;
- n the results of any audit or appeal process with the Internal Revenue Service; and
- n anticipated costs of capital investments.

You should 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. As noted above, these forward-looking statements speak only as of the date when they are made. The company does not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence

## NORTHROP GRUMMAN CORPORATION

of unanticipated events after the date of those statements. Moreover, in the future, the company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the company's filings with the Securities and Exchange Commission on Form 10-K, Form 10-Q and Form 8-K.

### CONTRACTUAL OBLIGATIONS

There have been no material changes to the company's contractual obligations from those discussed in the company's 2008 Form 10-K.

### GLOSSARY OF PROGRAMS

Listed below are brief descriptions of the programs mentioned in this Form 10-Q.

<b>Program Name</b>	<b>Program Description</b>
African Contingency Operations Training Assistance (ACOTA)	Provide peacekeeping training to militaries in African nations via the Department of State. The program is designed to improve the ability of African governments to respond quickly to crises by providing selected militaries with the training and equipment required to execute humanitarian or peace support operations.
Air Mobility Tanker	Program to replace the U.S. Air Force aerial refueling tanker fleet.
Airborne and Maritime/Fixed Stations Joint Tactical Radio Systems (AMF JTRS)	AMF JTRS will develop a communications capability that includes two software-defined, multifunction radio form factors for use by the U.S. Department of Defense and potential use by the U.S. Department of Homeland Security. Northrop Grumman has the responsibility for leading the Joint Tactical Radio (JTR) integrated product team and co-development of the JTR small airborne (JTR-SA) hardware and software. The company will also provide common JTR software for two JTR form factors, wideband power amplifiers, and the use of Northrop Grumman's Advanced Communications Test Center in San Diego as the integration and test site for the JTR-SA radio, waveforms and ancillaries.
Airborne Laser (ABL)	Design and develop the system's Chemical Oxygen Iodine Laser (COIL) and the Beacon Illuminator Laser (BILL) for Missile Defense Agency's Airborne Laser, providing a capability to destroy boost-phase missiles at very long range.
B-2 Stealth Bomber	Maintain strategic, long-range multi-role bomber with war-fighting capability that combines long range, large payload, all-aspect stealth, and near-precision weapons in one aircraft.
Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System	A maritime derivative of the Global Hawk that provides persistent maritime Intelligence, Surveillance, and Reconnaissance (ISR) data collection and dissemination capability to the Maritime Patrol and Reconnaissance Force.
Cobra Judy	The Cobra Judy Replacement program will replace the current U.S. Naval Ship (USNS) Observation Island and its aged AN/SPQ-11 Cobra Judy ballistic missile tracking radar. Northrop Grumman will provide the S-bank phased-array radar for use in technical data collection against ballistic missiles in flight.
Counter Narco Terrorism Programs and Operations (CNTPO)	Counter Narco Terrorism Programs and Operations provide support to the U.S. Government, coalition partners, and host nations in Technology Development and Application Support; Training; Operations and Logistics Support; and Professional and Executive Support. The program provides equipment and services to research, develop, upgrade, install, fabricate, test, deploy, operate, train, maintain, and support new and existing federal Government platforms, systems, subsystems, items, and host-nation support initiatives.

**NORTHROP GRUMMAN CORPORATION**

Deepwater Modernization Program	Multi-year program to modernize and replace the Coast Guard's aging ships and aircraft, and improve command and control and logistics systems. The company has design and production responsibility for surface ships.
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
E-2D Advanced Hawkeye	The E-2D builds upon the Hawkeye 2000 configuration with significant radar improvement performance. The E-2D provides over the horizon airborne early warning (AEW), surveillance, tracking, and command and control capability to the U.S. Naval Battle Groups and Joint Forces.
F-35 Development (Joint Strike Fighter)	Design, integration, and/or development of the center fuselage and weapons bay, communications, navigations, identification subsystem, systems engineering, and mission systems software as well as provide ground and flight test support, modeling, simulation activities, and training courseware.
EA-18G	The EA-18G is the replacement platform for the EA6B Prowler, which is currently the armed services' only offensive tactical radar jamming aircraft. The Increased Capability (ICAP) III mission system capability, developed for the EA-6B Prowler, will be incorporated into an F/A-18 platform (designated the EA-18G).
F/A-18	Produce the center and aft fuselage sections, twin vertical stabilizers, and integrate all associated subsystems for the F/A-18 Hornet strike fighters.
<i>George H. W. Bush</i> (CVN 77)	The 10 <sup>th</sup> and final <i>Nimitz</i> -class aircraft carrier that will incorporate many new design features, commissioned in early 2009.
<i>Gerald R. Ford</i> -class Aircraft Carrier	Design and construction for the new class of Aircraft Carriers.
Global Hawk High-Altitude Long-Endurance (HALE) Systems	Provide the Global Hawk HALE unmanned aerial system for use in the global war on terror and has a central role in Intelligence, Reconnaissance, and Surveillance supporting operations in Afghanistan and Iraq.
Global Linguists Solutions (GLS)	Provide interpretation, translation and linguist services in support of Operation Iraqi Freedom.
Hunter CLS	Operate, maintain, train and sustain the multi-mission Hunter Unmanned Aerial System in addition to deploying Hunter support teams.
Intercontinental Ballistic Missile (ICBM)	Maintain readiness of the nation's ICBM weapon system.
Integrated Base Defense Security System (IBDSS)	Integrated Based Defense Security System contract is an IDIQ acquisition vehicle to provide the USAF and other DoD customers with integrated base defense security solutions, utilizing comprehensive and integrated technology to satisfy a wide array of security concerns both CONUS and OCONUS.
Joint Base Operations Support (JBOSC)	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
Joint Surveillance Target Attack Radar System (Joint STARS)	Joint STARS detects, locates, classifies, tracks and targets hostile ground movements, communicating real-time information through secure data links with U.S. Air Force and Army command posts.
Joint Warfighting Center Support (JWFC)	Provide non-personal general and technical support to the USJFCOM Joint Force Trainer / Joint Warfighting Center to ensure the successful worldwide execution of the Joint Training and Transformation missions.

**NORTHROP GRUMMAN CORPORATION**

Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity (LAIRCM IDIQ)	Infrared countermeasures systems for C-17 and C-130 aircraft. The IDIQ contract will further allow for the purchase of LAIRCM hardware for foreign military sales and other government agencies.
LHD	The multipurpose amphibious assault ship LHD is the centerpiece of an Expeditionary Strike Group (ESG). In wartime, these ships deploy very large numbers of troops and equipment to assault enemy-held beaches. Like LPD, only larger, in times of peace, these ships have ample space for non-combatant evacuations and other humanitarian missions. The program of record is 8 ships of which Makin Island (LHD-8) is the last.
LPD	The LPD 17 San Antonio Class is the newest addition to the U.S. Navy's 21st Century amphibious assault force. The 684-foot-long, 105-foot-wide ships have a crew of 360 and are used to transport and land 700 to 800 Marines, their equipment, and supplies by embarked air cushion or conventional landing craft and assault vehicles, augmented by helicopters or other rotary wing aircraft. The ships will support amphibious assault, special operations, or expeditionary warfare & humanitarian missions.
MESA Korea	Consists of a 4 lot Multirole Electronically Scanned Array (MESA) radar/Identification Friend or Foe subsystem delivery with limited non-recurring engineering. The program also includes associated spares, support equipment and installation & check out activities, with direct and indirect offset projects. Northrop Grumman's customer is the Boeing Company, with ultimate product delivery to the Republic of Korea Air Force.
New York City Wireless (NYCWIn)	Provide New York City's broadband public-safety wireless network.
Space Based Infrared System (SBIRS)	Space-based surveillance systems for missile warning, missile defense, battlespace characterization and technical intelligence. SBIRS will meet United States infrared space surveillance needs through the next 2-3 decades.
Trailer Mounted Support System (TMSS)	Trailer Mounted Support System is a key part of the Army's Standardized Integrated Command Post System Program providing workspace, power distribution, lighting, environmental conditioning (heating and cooling) tables and a common grounding system for commanders and staff at all echelons.
Unmanned Combat Air System Carrier Demonstration (UCAS-D)	A development/demonstration contract that will design, build and test two demonstration vehicles that will conduct a carrier demonstration. The technology demonstrations are to show carrier control area operations, catapult launch, and an arrested landing of a low observable unmanned aerial vehicle.
<i>USS Carl Vinson</i>	Refueling and complex overhaul of the nuclear-powered aircraft carrier <i>USS Carl Vinson</i> (CVN 70).
<i>USS Enterprise</i> Extended Dry-docking Selected Restricted Availability (EDSRA)	Provide routine dry dock work, tank blasting and coating, hull preservation, propulsion and ship system repairs and limited enhancements to various hull, mechanical and electrical systems for the <i>USS Enterprise</i> .
<i>USS Roosevelt</i>	Refueling and complex overhaul of the nuclear-powered aircraft carrier <i>USS Theodore Roosevelt</i> (CVN 71).
Virginia-class Submarines	Construct the newest attack submarine in conjunction with Electric Boat.
Virginia-class MPU & SSTG	Provide main propulsion units and ship service turbine generators for Virginia-class submarines. The contract with General Dynamics Electric Boat is for the production of MPUs and SSTGs, and covers manufacturing, factory acceptance testing, shipment and support.

**NORTHROP GRUMMAN CORPORATION**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

*Interest Rates* – The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term borrowings under the credit agreement, short-term investments, and long-term notes receivable. At March 31, 2009, substantially all outstanding borrowings were fixed-rate long-term debt obligations of which a significant portion are not callable until maturity. The company has a modest exposure to interest rate risk resulting from four interest rate swap agreements. The company's sensitivity to a 1 percent change in interest rates is tied to its \$2 billion credit agreement, which had no balance outstanding at March 31, 2009 or December 31, 2008, and the aforementioned interest rate swap agreements. See Note 3 to the condensed consolidated financial statements in Part I, Item 1.

*Derivatives* – The company does not hold or issue derivative financial instruments for trading purposes. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At March 31, 2009 and December 31, 2008, four interest rate swap agreements were in effect. See Note 3 to the condensed consolidated financial statements in Part I, Item 1.

*Foreign Currency* – The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At March 31, 2009 and December 31, 2008, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure related to foreign currency exchange to be material to the condensed consolidated financial statements.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The company's principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of March 31, 2009, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls over Financial Reporting**

During the three months ended March 31, 2009, no change occurred in the company's internal controls over financial reporting that materially affected, or is likely to materially affect, the company's internal controls over financial reporting.



**NORTHROP GRUMMAN CORPORATION**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

*U.S. Government Investigations and Claims* – Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

On April 2, 2009, the company reached an agreement with the U.S. Government to settle two previously disclosed legal matters. The first matter involved potentially substantial claims by the U.S. Department of Justice and a restricted U.S. Government customer relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a part of the company. In the third quarter of 2006, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of \$112.5 million to cover the cost of the settlement proposal and associated investigative costs. While the company believes that it acted properly under its contracts and had substantive defenses to the claims, it also believes that the settlement agreement is in the best interests of all parties as it releases the company from the government's claims, avoids litigation and preserves a valued customer relationship. Under the terms of the settlement agreement, the U.S. Department of Justice valued its claims regarding the microelectronics matter at \$325 million. The second matter covered by the settlement agreement involved a lawsuit filed by the company in 1996 against the U.S. Government in the U.S. Court of Federal Claims relating to the Tri-Service Standoff Attack Missile (TSSAM) program. As previously disclosed, the company received a termination for convenience notice on the program and sought recovery for uncompensated performance costs, investments and a reasonable profit on the program. Under the terms of the settlement agreement, the U.S. Department of Justice valued the company's TSSAM claims at \$325 million. The settlement amounts for the two matters are equal and thereby offset each other. The financial impact of the settlement agreement, including its related cost, on the previously recorded accrual for the microelectronics claim and any adjustments for other legal matters will result in a net gain for the second quarter of 2009. The settlement agreement will not have a significant impact on the company's cash from operations.

As previously disclosed, in the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems" and alleged "nonconforming topside equipment" on the vessels. The company submitted a written response that argued that the revocation of acceptance was improper, and in late December 2007, the Coast Guard advised Integrated Coast Guard Systems (the contractors' joint venture for performing the Deepwater Program, the "Joint Venture") that the Coast Guard was seeking \$96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. In May 2008, the Coast Guard advised the Joint Venture that the Coast Guard would support an investigation by the U.S. Department of Justice of the Joint Venture and its subcontractors instead of pursuing its \$96.1 million claim independently. The Department of Justice had previously issued subpoenas related to the Deepwater Program, pursuant to which the company has provided responsive documents. On February 6, 2009, the U.S. Department of Justice notified the U.S. District Court for the Northern District of Texas that the U.S. Government "is not intervening at this time" in what was then a sealed False Claims Act complaint. On February 12, the Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against Integrated Coast Guard Systems, Lockheed Martin Corporation and the company, relating to the 123-foot conversion effort. Based upon the information available to the company to

## **NORTHROP GRUMMAN CORPORATION**

date, the company believes that it has substantive defenses to any potential claims but can give no assurance that the company will prevail in this litigation.

As previously disclosed, in August 2008, the company disclosed to the Antitrust Division of the U.S. Department of Justice possible violations of federal antitrust laws in connection with the bidding process for certain maintenance contracts at a military installation in California. In February 2009, the company and the Department of Justice signed an agreement admitting the company into the Corporate Leniency Program. As a result of the company's acceptance into the Program, the company will be exempt from federal criminal prosecution and criminal fines relating to the matters the company reported to the Department of Justice if the company complies with certain conditions, including its continued cooperation with the government's investigation and its agreement to make restitution if the government was harmed by the violations.

Based upon the available information regarding matters that are subject to U.S. Government investigations, the company believes, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

*Litigation* – Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

### **Other Matters**

As previously disclosed, the company is pursuing legal action against an insurance provider arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see Note 10 to the condensed consolidated financial statements in Part I, Item 1). The company commenced the action against Factory Mutual Insurance Company (FM Global) on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the district court issued an order finding that the excess insurance policy provided coverage for the company's Katrina-related loss. In November 2007, FM Global filed a notice of appeal of the district court's order. On August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of the company, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its "Flood" exclusion. The Court of Appeals remanded the case to the district court to determine whether the California efficient proximate cause doctrine affords the company coverage under the policy even if the Flood exclusion of the policy is unambiguous. The company filed a Petition for Rehearing En Banc, or in the Alternative, For Panel Rehearing with the Court of Appeals on August 27, 2008. On April 2, 2009, the Court of Appeals denied the company's Petition for Rehearing and remanded the case to the district court. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

### **Item 1A. Risk Factors**

There are no material changes to the risk factors previously disclosed in the company's 2008 Annual Report on Form 10-K.

**NORTHROP GRUMMAN CORPORATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Purchases of Equity Securities* – The table below summarizes the company’s repurchases of common stock during the three months ended March 31, 2009.

<i>Period</i>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1 through January 31, 2009				\$ 945 million
February 1 through February 28, 2009	1,175,600	\$43.24	1,175,600	894 million
March 1 through March 31, 2009	3,037,255	37.44	3,037,255	780 million
<b>Total</b>	<b>4,212,855</b>	<b>\$39.06</b>	<b>4,212,855</b>	<b>\$780 million<sup>(1)</sup></b>

(1) On December 19, 2007, the company’s board of directors authorized a share repurchase program of up to \$2.5 billion of its outstanding common stock. As of March 31, 2009, the company has \$780 million remaining on this authorization for share repurchases.

Share repurchases take place at management’s discretion or under pre-established, non-discretionary programs from time to time, depending on market conditions, in the open market, and 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 programs.

**Item 3. Defaults upon Senior Securities**

No information is required in response to this item.

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

No information is required in response to this item.

**Item 5. Other Information**

No information is required in response to this item.

**Item 6. Exhibits**

- 3.1 Bylaws of Northrop Grumman Corporation, as amended September 17, 2008 (incorporated by reference to Exhibit 3.2 to Form 8-K dated September 17, 2008 and filed September 23, 2008), and October 20, 2008 (incorporated by reference to Exhibit 3.2 to Form 8-K dated October 20, 2008 and filed October 23, 2008)
- 10.1 Compensatory Arrangements of Certain Officers (Named Executive Officers) for 2009 (incorporated by reference to Form 8-K dated February 17, 2009 and filed February 23, 2009)
- 10.2 Northrop Grumman 2001 Long-Term Incentive Plan (As amended September 17, 2003) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003), as amended by First Amendment to the Northrop Grumman 2001 Long-Term Incentive Stock Plan dated December 19, 2008 (incorporated by reference to Exhibit 10(i) to Form 10-K for the year ended December 31, 2007, filed February 20, 2008)
  - \*(i) Form of Agreement for 2009 Stock Options
  - \*(ii) Form of Agreement for 2009 Restricted Performance Stock Rights
- \*10.3 Executive Accidental Death, Dismemberment and Plegia Insurance Policy Terms applicable to Executive Officers dated January 1, 2009

**NORTHROP GRUMMAN CORPORATION**

*10.4	Northrop Grumman Executive Health Plan Matrix effective July 1, 2008
*10.5	Consultant Contract dated December 22, 2008 between Northrop Grumman Corporation and W. Burks Terry
*10.6	The 2002 Incentive Compensation Plan of Northrop Grumman Corporation, As amended and restated effective January 1, 2009
*10.7	Northrop Grumman 2006 Annual Incentive Plan and Incentive Compensation Plan (for Non- Section 162(m) Officers), As amended and restated effective January 1, 2009
**12(a)	Computation of Ratio of Earnings to Fixed Charges
*15	Letter from Independent Registered Public Accounting Firm
*31.1	Rule 13a-15(e)/15d-15(e) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar 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

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*	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 N. Heintz**  
Kenneth N. Heintz  
Corporate Vice President, Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: April 22, 2009

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**NORTHROP GRUMMAN CORPORATION**  
**TERMS AND CONDITIONS APPLICABLE TO 2009 STOCK OPTIONS**  
**GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN**

These Terms and Conditions (“Terms”) apply to certain stock options granted by Northrop Grumman Corporation (the “Company”) in 2009. If you were granted a stock option by the Company in 2009, the date of grant of your stock option (your “Option”), the total number of shares of common stock of the Company subject to your Option, and the per share exercise price of your Option are set forth in the letter from the Company announcing your Option grant (your “Grant Letter”) and are reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply to your Option if referenced in your Grant Letter and/or on the Stock Plan System with respect to your Option. If you were granted an Option, you are referred to as the “Grantee” with respect to your Option. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

The Option represents a right to purchase the number of shares of the Company’s Common Stock, for the per share exercise price of the Option, each as stated in your Grant Letter and as reflected in the Stock Plan System. The number of shares and exercise price of the Option are subject to adjustment as provided herein. The Option is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

**1. Vesting; Exercise of Option.**

**1.1 Vesting.** The Option is exercisable only to the extent that it has vested and has not expired or terminated. Subject to Sections 2 and 5 below, one-third (1/3) of the total number of shares of Company Common Stock subject to the Option (subject to adjustment as provided in Section 5.1) shall vest and become exercisable upon each of the first, second and third anniversaries of the Grant Date.

**1.2 Method of Exercise.** In order to exercise the Option, the Grantee or such other person as may be entitled to exercise the same shall (a) execute and deliver to the Corporate Secretary of the Company a written notice indicating the number of shares subject to the Option to be exercised, and/or (b) complete such other exercise procedure as may be prescribed by the Corporate Secretary of the Company. The date of exercise of the Option shall be the day such notice is received by the Corporate Secretary of the Company or the day such exercise procedures are satisfied, as applicable; provided that in no event shall the Option be considered to have been exercised unless the per share exercise price of the Option is paid in full (or provided for in accordance with Section 1.3) for each of the shares to be acquired on such exercise and all required tax withholding obligations with respect to such exercise have been satisfied or provided for in accordance with Section 6 hereof. No fractional shares will be issued.

**1.3 Payment of Exercise Price.** The exercise price shall be paid at the time of exercise. Payment may be made (a) in cash; (b) in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part (i) by a reduction in the number of shares of Common Stock otherwise deliverable pursuant to the Option (valued at their Fair Market Value on the date of exercise of the Option) or (ii) in Common Stock of the Company (either actually or by attestation and valued at their Fair Market Value on the date of exercise of the Option); (c) in a combination of payments under clauses (a) and (b); or (d) pursuant to a cashless exercise arranged through a broker or other third party. Notwithstanding the foregoing, the Committee may at any time (a) limit the ability of the Grantee to exercise the Option through any method other than a cash payment, or (b) require the Grantee to exercise, to the extent possible, the Option in the manner described in clauses (b)(i) and (b)(ii) of the preceding sentence.

**1.4 Tax Status.** The Option is not and shall not be deemed to be an incentive stock option within the meaning of Section 422 of the Code.

**2. Termination of Option; Termination of Employment.**

**2.1 General.** The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void at the close of business on the last business day preceding the seventh (7<sup>th</sup>) anniversary of the Grant Date (the “Expiration Date”). The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

**2.2 Termination of Employment Due to Retirement.** If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee's Early Retirement and such Early Retirement occurs more than six months after the Grant Date, the next succeeding vesting installment of the Option shall vest, and all installments under the Option which have vested may be exercised by the Grantee (or, in the event of the Grantee's death, by the Grantee's Successor) until the fifth anniversary of the Grantee's Early Retirement, but in no event after the Expiration Date. Any remaining unvested installments, after giving effect to the foregoing sentence, shall terminate immediately upon the Grantee's Early Retirement. If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee's Normal Retirement and such Normal Retirement occurs more than six months after the Grant Date, all remaining installments of the Option shall vest, and all installments under the Option may be exercised by the Grantee (or, in the event of the Grantee's death, by the Grantee's Successor) until the fifth anniversary of the Grantee's Normal Retirement, but in no event after the Expiration Date.

In determining the Grantee's eligibility for Early or Normal Retirement, service is measured by dividing (a) the number of days the Grantee was employed by the Company or a subsidiary in the period commencing with his or her last date of hire by the Company or a subsidiary through and including the date on which the Grantee is last employed by the Company or a subsidiary, by (b) 365. If the Grantee ceased to be employed by the Company or a subsidiary and was later rehired by the Company or a subsidiary, the Grantee's service prior to the break in service shall be disregarded in determining service for such purposes; provided that, if the Grantee's employment with the Company or a subsidiary had terminated due to the Grantee's Early Retirement, Normal Retirement, or by the Company as part of a reduction in force (in each case, other than a termination by the Company or a subsidiary for cause) and, within the two-year period following such termination of employment (the "break in service") the Grantee was subsequently rehired by the Company or a subsidiary, then the Grantee's period of service with the Company or a subsidiary prior to and ending with the break in service will be included in determining service for such purposes. In the event the Grantee is employed by a business that is acquired by the Company or a subsidiary, the Company shall have discretion to determine whether the Grantee's service prior to the acquisition will be included in determining service for such purposes.

**2.3 Termination of Employment Due to Death or Disability.** If the Grantee dies while employed by the Company or a subsidiary and such death occurs more than six months after the Grant Date, or if the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Disability and such termination occurs more than six months after the Grant Date, the next succeeding vesting installment of the Option shall vest, and all installments under the Option which have vested may be exercised by the Grantee (or, in the case of the Grantee's death, by the Grantee's Successor) until the fifth anniversary of the Grantee's death or Disability, whichever first occurs, but in no event after the Expiration Date. Any remaining unvested installments, after giving effect to the foregoing sentence, shall terminate immediately upon the Grantee's death or Disability, as applicable.

**2.4 Other Terminations of Employment.** Subject to the following sentence, if the employment of the Grantee with the Company or a subsidiary is terminated for any reason other than the Grantee's Early or Normal Retirement, death, or Disability, or in the event of a termination of the Grantee's employment with the Company or a subsidiary on or before the six-month anniversary of the Grant Date due to the Grantee's Early or Normal Retirement, death, or Disability, the Option may be exercised (as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment terminated) only within 90 days from the date of such termination of employment, but in no event after the Expiration Date; provided, however, that if the Grantee is dismissed by the Company or a subsidiary for cause, the Option shall expire forthwith. If the Grantee dies within 90 days after a termination of employment described in the preceding sentence (other than a termination by the Company or a subsidiary for cause), the Option may be exercised by the Grantee's Successor for one year from the date of the Grantee's death, but in no event after the Expiration Date and as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment by the Company or a subsidiary terminated. For purposes of this Section 2 and prior to a Change in Control, the Company shall be the sole judge of "cause" unless such term is expressly defined in a written employment agreement by and between the Grantee and either the Company or one of its subsidiaries, in which case "cause" is used as defined in such employment agreement for purposes of this Section 2. Prior to a Change in Control, the definition of "Cause" in Section 9 does not apply for purposes of this Section 2. With respect to a termination of employment upon or following a Change in Control, the definition of "Cause" in Section 9 shall apply for purposes of this Section 2.

**2.5 Leave of Absence.** Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the Option, and (b) shall be deemed to be employed by the Company for

the duration of such approved leave of absence for purposes of the Option. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

**2.6 Salary Continuation.** Subject to Section 2.5 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company and covered by Section 2.5) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.5, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the Option.

**2.7 Sale or Spinoff of Subsidiary or Business Unit.** For purposes of the Option, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee’s employment does not terminate due to the Grantee’s Early or Normal Retirement upon or immediately before such event and the Grantee does not otherwise continue to be employed by the Company after such event.

**2.8 Continuance of Employment Required.** Except as expressly provided in Sections 2.2 and 2.3 above, and Section 5 below, the vesting of the Option requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of the award. Employment before or between the specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

### **3. Non-Transferability and Other Restrictions.**

**3.1 Non-Transferability.** The Option is non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to: (a) transfers to the Company; (b) transfers by will or the laws of descent and distribution; or (c) if the Grantee has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company’s ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

**3.2 Recoupment of Awards.** Any payments or issuances of shares with respect to the Option are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy with respect to the Option. Further, the Grantee agrees, by accepting the Option, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy with respect to the Option.

### **4. Compliance with Laws; No Stockholder Rights Prior to Issuance.**

The Company’s obligation to issue any shares with respect to the Option is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchanges upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to shares subject to or purchased under the Option until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee) issued upon the exercise of the Option.

### **5. Adjustments; Change in Control.**

**5.1 Adjustments.** The number, type and price of shares subject to the Option, as well as the per share exercise price of the Option, are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee



written notice thereof which will set forth the nature of the adjustment.

**5.2 Possible Acceleration on Change in Control.** Notwithstanding the acceleration provisions of Section 2 hereof but subject to the limited exercise periods set forth therein, and further subject to the Company's ability to terminate the Option as provided in Section 5.3 below, the outstanding and previously unvested portion of the Option shall become fully exercisable as of the date of the Grantee's termination of employment as follows:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

**5.3 Automatic Acceleration; Early Termination.** If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested portion of the Option shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting or exercisability of the Option shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the Option. If the Option is fully vested or becomes fully vested as provided in this Section 5.3 but is not exercised prior to a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the award (such settlement to be calculated as though the Option was exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock). The Option, if so settled by the Committee, shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of the Option, then upon the Change in Control the Option shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of the Option; provided that the Grantee shall be given reasonable notice of such intended termination and an opportunity to exercise the Option prior to or upon the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the Option pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the Option; provided, however, that, the Committee may reinstate the original terms of the Option if the related event does not actually occur. The provisions in this Section 5.3 for the early termination of the Option in connection with a Change in Control of the Company supercede any other provision hereof that would otherwise allow for a longer Option term.

## **6. Tax Matters.**

**6.1 Tax Withholding.** The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of issuing shares upon exercise of the Option, that the Grantee or other person exercising the Option pay any sums required to be withheld by federal, state or local tax law with respect to such vesting

or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the Option (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations at the flat percentage rates applicable to supplemental wages).

**6.2 Transfer Taxes.** The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the Option.

#### **7. Committee Authority.**

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

#### **8. Plan; Amendment.**

The Option is governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

#### **9. Definitions.**

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

“**Board**” means the Board of Directors of the Company.

“**Cause**” means the occurrence of either or both of the following:

- (i) The Grantee'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); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

“**Change in Control**” is used as defined in the Plan.

“**Change in Control Severance Arrangement**” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company's Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

“**Disability**” means disabled pursuant to the provisions of the Company's (or one of its subsidiary's) Long Term Disability Plan applicable to the Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice.

“**Early Retirement**” means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause) and other than a Normal Retirement. However, in the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy and who, at the applicable time, is not otherwise eligible for Early Retirement as defined in the preceding sentence or for Normal Retirement, “Early Retirement” as to that Grantee means that the Grantee's employment is terminated pursuant to such mandatory retirement

policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

**"Exchange Act"** means the United States Securities Exchange Act of 1934, as amended.

**"Fair Market Value"** is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the Option may utilize such other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the Fair Market Value of the shares shall be the price at which the shares in payment of the exercise price are sold.

**"Good Reason"** means, without the Grantee's express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee's authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. For the purpose of the preceding test, the Grantee and the Company shall mutually agree on a nationally-recognized consulting firm; provided that, if agreement cannot timely be reached, the Company and the Grantee shall each timely choose a nationally-recognized firm and representatives of these two firms shall promptly choose a third firm, which third firm will make the determination referred to in the preceding sentence. The written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee's loss of vice-president status will constitute "Good Reason"; provided that the loss of the title of "vice president" will not, in and of itself, constitute Good Reason if the Grantee's lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee's business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the Grant Date or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

**"Grant Date"** means the date that the Committee approved the grant of the Option.

**"Normal Retirement"** means that the Grantee terminates employment after attaining age 65 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

**"Parent"** is used as defined in the Plan.

**"Plan"** means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

**"Successor"** means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.

**NORTHROP GRUMMAN CORPORATION**  
**TERMS AND CONDITIONS APPLICABLE TO**  
**2009 RESTRICTED PERFORMANCE STOCK RIGHTS**  
**GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN**

These Terms and Conditions (“Terms”) apply to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2009. If you were granted an RPSR award by the Company in 2009, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to your 2009 RPSR award. If you were granted an RPSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2009 to December 31, 2011 (the “Performance Period”). The target number of RPSRs subject to your award is subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

**1. Vesting; Payment of RPSRs.**

The RPSRs are subject to the vesting and payment provisions established (or to be established, as the case may be) by the Committee with respect to the Performance Period. RPSRs that vest based on such provisions will be paid as provided below. No fractional shares will be issued.

**1.1 Performance-Based Vesting of RPSRs.** At the conclusion of the Performance Period, the Committee shall determine whether and the extent to which the applicable performance criteria have been achieved for purposes of determining earnouts and RPSR payments. Based on its determination, the Committee shall determine the percentage of target RPSRs subject to the award (if any) that have vested for the Performance Period in accordance with the earnout schedule established (or to be established, as the case may be) by the Committee with respect to the Performance Period (the “Earnout Percentage”). Except as provided in Section 1.2 below, any RPSRs subject to the award that are not vested as of the conclusion of the Performance Period after giving effect to the Committee’s determinations under this Section 1.1 shall terminate and become null and void immediately following such determinations.

**1.2 Minimum Vesting.** The Earnout Percentage determined under Section 1.1 shall not be less than thirty (30) percent; provided, however, that such minimum Earnout Percentage shall not apply if, as of the grant date, the Grantee is either the Chief Executive Officer of the Company or is a member of the Company’s Corporate Policy Council.

**1.3 Payment of RPSRs.** The number of RPSRs payable at the conclusion of the Performance Period (“Earned RPSRs”) shall be determined by multiplying the Earnout Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash will equal the Fair Market Value of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will be paid in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

**2. Early Termination of Award; Termination of Employment.**

**2.1 General.** The RPSRs subject to the award shall terminate and become null and void prior to the conclusion of the Performance Period if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

**2.2 Termination of Employment Due to Retirement, Death or Disability.** The number of RPSRs subject to the award shall vest on a prorated basis as provided herein if the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s Retirement, death, or Disability and, in each

case, only if the Grantee has completed at least six (6) consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. Such prorating of RPSRs shall be based on the number of full months the Grantee was actually employed by the Company or one of its subsidiaries out of the thirty-six month Performance Period. Partial months of employment during the Performance Period, even if substantial, shall not be counted for purposes of prorated vesting. Any RPSRs subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee's employment due to Retirement, death or Disability shall terminate immediately upon such termination of employment.

**Death or Disability.** In the case of death or Disability (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs (but in no event shall such date be more than one year before the Grantee's termination of employment), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs will be made in the calendar year containing the 75<sup>th</sup> day following the date of the Grantee's death or Disability (and generally will be paid on or about such 75<sup>th</sup> day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

**Retirement in General.** Subject to the following provisions of this Section 2.2, in the case of Retirement, (a) the entire Performance Period will be used to calculate the Grantee's Earned RPSRs, (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for the Performance Period, and (c) payment of Earned RPSRs will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

In determining the Grantee's eligibility for Retirement, service is measured by dividing (a) the number of days the Grantee was employed by the Company or a subsidiary in the period commencing with his or her last date of hire by the Company or a subsidiary through and including the date on which the Grantee is last employed by the Company or a subsidiary, by (b) 365. If the Grantee ceased to be employed by the Company or a subsidiary and was later rehired by the Company or a subsidiary, the Grantee's service prior to the break in service shall be disregarded in determining service for such purposes; provided that, if the Grantee's employment with the Company or a subsidiary had terminated due to the Grantee's Retirement, or by the Company as part of a reduction in force (in each case, other than a termination by the Company or a subsidiary for cause) and, within the two-year period following such termination of employment (the "break in service") the Grantee was subsequently rehired by the Company or a subsidiary, then the Grantee's period of service with the Company or a subsidiary prior to and ending with the break in service will be included in determining service for such purposes. In the event the Grantee is employed by a business that is acquired by the Company or a subsidiary, the Company shall have discretion to determine whether the Grantee's service prior to the acquisition will be included in determining service for such purposes.

**Retirement Due to Government Service.** In the case of Retirement where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs will be made within 10 days after Retirement. The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

**2.3 Other Terminations of Employment.** Subject to Section 5.2, all RPSRs subject to the award terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

**2.4 Leave of Absence.** Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

**2.5 Salary Continuation.** Subject to Section 2.4 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.4) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.4, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

**2.6 Sale or Spinoff of Subsidiary or Business Unit.** For purposes of the RPSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not Retire upon or immediately before such event and the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event.

**2.7 Continuance of Employment Required.** Except as expressly provided in Sections 2.2 and 2.4 above and in Section 5 below, the vesting of the RPSRs subject to the award requires continued employment through the last day of the Performance Period as a condition of the payment of such RPSRs. Employment for only a portion of the Performance Period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

**2.8 Death.** In the event of the Grantee’s death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs, the Grantee’s Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such RPSRs.

### **3. Non-Transferability and Other Restrictions.**

**3.1 Non-Transferability.** The award, as well as the RPSRs subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company’s ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

**3.2 Recoupment of Awards.** Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy with respect to the award. Further, the Grantee agrees, by accepting the award, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy with respect to the award.

### **4. Compliance with Laws; No Stockholder Rights Prior to Issuance.**

The Company’s obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends, with respect to any shares which may be issued in respect of the RPSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

### **5. Adjustments; Change in Control.**

**5.1 Adjustments.** The RPSRs, related performance criteria, and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will

give the Grantee written notice thereof which will set forth the nature of the adjustment.

**5.2 Possible Acceleration on Change in Control.** Notwithstanding the provisions of Section 2 hereof, and further subject to the Company's ability to terminate the award as provided in Section 5.3 below, the Grantee shall be entitled to proportionate vesting of the award as provided below if the Grantee is not otherwise entitled to a pro-rata payment pursuant to Section 2 and in the event of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in excess of 36 months) and the denominator of which is 36. Payment of any amount due under this Section 5.2 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

**5.3 Automatic Acceleration; Early Termination.** If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the Grantee shall be entitled to a prorated payment of the RPSRs as provided below and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and before the occurrence of the



Change in Control (but not in excess of 36 months) and the denominator of which is 36. Payment of any amount due under this Section 5.3 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

## **6. Tax Matters.**

**6.1 Tax Withholding.** The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RPSRs, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations).

**6.2 Transfer Taxes.** The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RPSRs.

**6.3 Compliance with Code.** The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

**6.4 Unfunded Arrangement.** The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

## **7. Committee Authority.**

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

## **8. Plan; Amendment.**

The RPSRs subject to the award are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

## **9. Definitions.**

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

“**Board**” means the Board of Directors of the Company.

“**Cause**” means the occurrence of either or both of the following:

- (i) The Grantee'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); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

“**Change in Control**” is used as defined in the Plan.

“**Change in Control Severance Arrangement**” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company's Compensation and Management Development Committee or any

successor committee appointed by the Board to administer the Plan.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee’s loss of vice-president status will constitute “Good Reason”; provided that the loss of the title of “vice president” will not, in and of itself, constitute Good Reason if the Grantee’s lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee’s business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee’s lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A reduction by the Company in the Grantee’s annualized rate of base salary as in effect on the first to occur of the start of the Performance Period or the start of the Protected Period, or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee’s level of participation in any of the Company’s short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be “Good Reason” if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee’s aggregate level of participation in the Company’s stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be “Good Reason” if the reduced level of participation remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (v) The Grantee is informed by the Company that his or her principal place of employment for the

Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

**"Parent"** is used as defined in the Plan.

**"Plan"** means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

**"Retirement"** or **"Retire"** means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy, "Retirement" or "Retire" shall also include as to that Grantee (without limiting the Grantee's ability to Retire pursuant to the preceding sentence) a termination of the Grantee's employment pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

**"Successor"** means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.

**CALIFORNIA LIFE AND HEALTH INSURANCE  
GUARANTY ASSOCIATION ACT  
SUMMARY DOCUMENT AND DISCLAIMER**

Residents of California who purchase life and health insurance and annuities should know that the insurance companies licensed in this state to write these types of insurance are members of the California Life and Health Insurance Guaranty Association. The purpose of this Association is to assure that policyholders will be protected, within limits, in the unlikely event that a member insurer becomes financially unable to meet its obligations. If this should happen, the Association will assess its other member insurance companies for the money to pay the claims of insured persons who live in this state and, in some cases, to keep coverage in force. The valuable extra protection provided through the Association is not unlimited, as noted in the box below, and is not a substitute for consumers' care in selecting well managed and financially stable insurers.

**The California Life and Health Insurance Guaranty Association may not provide coverage for this insurance. If coverage is provided, it may be subject to substantial limitations or exclusions, and require continued residency in the state. You should not rely on coverage by the Association in selecting an insurance company or in selecting an insurance policy.**

**Coverage is NOT provided for your insurance or any portion of it that is not guaranteed by the Insurer or for which you have assumed the risk, such as a variable contract sold by prospectus.**

**Insurance companies or their agents are required by law to give or send you this notice. However, insurance companies and their agents are prohibited by law from using the existence of the Association to induce you to purchase any kind of insurance policy.**

**If you have additional questions, you should first contact your insurer or agent and then may contact:**

**California Life and Health  
Insurance Guaranty Association  
P.O. Box 16860  
Beverly Hills, CA 90209**

**OR**

**Consumer Service Division  
California Department of Insurance  
300 South Spring Street  
Los Angeles, CA 90013**

Below is a brief summary of this law's coverages, exclusions and limits. This summary does not cover all provisions of the law; nor does it in any way change anyone's rights or obligations under the Act or the rights or obligations of the Association.

**COVERAGE**

Generally, individuals will be protected by the California Life and Health Insurance Guaranty Association if they live in this state and hold a life or health insurance contract, or an annuity, or if they are insured under a group insurance contract, issued by a member insurer. The beneficiaries, payees or assignees of insured persons are protected as well, even if they live in another state.

## **EXCLUSIONS FROM COVERAGE**

However, persons holding such policies are not protected by this Association if:

- their insurer was not authorized to do business in this state when it issued the policy or contract;
- their policy was issued by a health care service plan (HMO), Blue Cross, Blue Shield, a charitable organization, a fraternal benefit society, a mandatory state pooling plan, a mutual assessment company, an insurance exchange, or a grants and annuities society;
- they are eligible for protection under the laws of another state. This may occur when the insolvent insurer was incorporated in another state whose Guaranty Association protects insureds who live outside that state.

The Association also does not provide coverage for:

- unallocated annuity contracts; that is, contracts which are not issued to and owned by an individual and which guarantee rights to group contract holders, not individuals;
- employer and association plans to the extent they are self-funded or uninsured;
- synthetic guaranteed interest contracts;
- any policy or portion of a policy which is not guaranteed by the insurer or for which the individual has assumed the risk, such as a variable contract sold by prospectus;
- any policy of reinsurance unless an assumption certificate was issued;
- interest rate yields that exceed an average rate; and
- any portion of a contract that provides dividends or experience rating credits.

## **LIMITS ON AMOUNT OF COVERAGE**

The Act limits the Association to pay benefits as follows:

### **Life and Annuity Benefits**

- 80% of what the life insurance company would owe under a life policy or annuity contract up to
  - \$100,000 in cash surrender values;
  - \$100,000 in present value of annuities; or
  - \$250,000 in life insurance death benefits.
- A maximum of \$250,000 for any one insured life no matter how many policies and contracts there were with the same company, even if the policies provided different types of coverages.

### **Health Benefits**

- A maximum of \$200,000 of the contractual obligations that the health insurance company would owe were it not insolvent. The maximum may increase or decrease annually based upon changes in the health care cost component of the consumer price index.

## **PREMIUM SURCHARGE**

Member insurers are required to recoup assessments paid to the Association by way of a surcharge on premiums charged for health insurance policies to which the act applies.

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**GROUP ACCIDENT POLICY**

**POLICYHOLDER:** Trustee of the Group Insurance Trust for  
Employers in the Manufacturing Industry

**SUBSCRIBER:** Northrop Grumman Corporation

**POLICY NUMBER:** OK 980036

**POLICY EFFECTIVE DATE:** June 1, 2004

**POLICY REWRITE DATE:** July 1, 2007

**POLICY ANNIVERSARY DATE:** July 1

**STATE OF ISSUE:** Delaware

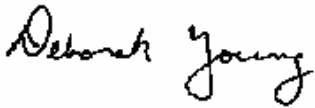
This Policy is a continuation of and replaces the same numbered policy that became effective June 1, 2004, as rewritten effective December 29, 2004. Any different benefits provided by this Policy become effective on its Rewrite Date shown above. Any different benefits will not affect benefits payable for claims incurred before the Policy Rewrite Date.

This Policy describes the terms and conditions of insurance. This Policy goes into effect subject to its applicable terms and conditions at 12:01 AM on the Policy Rewrite Date shown above at the Policyholder's address. The laws of the State of Issue shown above govern this Policy.

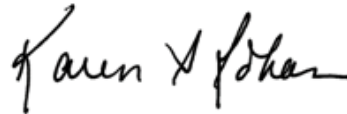
We and the Policyholder agree to all of the terms of this Policy.

**THIS IS A GROUP ACCIDENT ONLY INSURANCE POLICY.  
IT DOES NOT PAY BENEFITS FOR LOSS CAUSED BY SICKNESS.**

**THIS IS A LIMITED POLICY.  
PLEASE READ IT CAREFULLY.**



Deborah Young, Corporate Secretary



Karen S. Rohan, President

Countersigned \_\_\_\_\_  
Where Required By Law

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**SCHEDULE OF AFFILIATES**

The following affiliates are covered under this Policy on the effective dates listed below.

<u>AFFILIATE NAME</u>	<u>LOCATION</u>	<u>EFFECTIVE DATE</u>
None		
GA-00-1000.00		



## SCHEDULE OF BENEFITS

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*This Policy is intended to be read in its entirety. In order to understand all the conditions, exclusions and limitations applicable to its benefits, please read all the policy provisions carefully.*

**The Schedule of Benefits provides a brief outline of the coverage and benefits provided by this Policy. Please read the Description of Coverages and Benefits Section for full details.**

**Subscriber:** Northrop Grumman Corporation

**Effective Date of Subscriber Participation:** June 1, 2004

**Policy Rewrite Date:** July 1, 2007

**Minimum Participation Requirements:**  
Percentage Not applicable

### Covered Classes:

Class 1	All active, Employees who are members of Executive Class 1, Executive Class 2, Executive Class 3, Executive Class 4, and Executive Class 9 as on file with the Subscriber.
Class 2	All active, Employees eligible for coverage under the Northrop Grumman Health Plan (NGHP)*, excluding the following: Employees who are members of Executive Classes 1, 2, 3, 4, and 9 as on file with the Subscriber; Electronic Systems (ES) Employees in Entities 66, 68 and 78 represented by a collective bargaining agreement; Electronic Systems (ES) Contract Specific Employees; Employees of Ingalls represented by a collective bargaining agreement; Employees of Avondale represented by a collective bargaining agreement; Litton Corporate Office Employees under a CIC Agreement; and Employees represented by collective bargaining agreements between Newport News Shipbuilding and United Steelworkers of America, Local 888, The International Union Security, Police and Fire Professionals of America, Local 451, and International Association of Fire Fighters, Local I-45.
Class 5	All active, Employees represented by a collective bargaining agreement between Newport News Shipbuilding and United Steelworkers of America, Local 888 (bargaining unit) who have completed at least 3 months of continuous, active employment.
Class 6	All active, Electronic Systems (ES) Employees in Entities 66, 68 and 78 who are eligible for coverage under the Northrop Grumman Health Plan (NGHP)* that are represented by a collective bargaining agreement.
Class 7	All active, Electronic Systems (ES) Contract Specific Employees.
Class 8	All active, Employees represented by a collective bargaining agreement between Newport News Shipbuilding and The International Union Security, Police and Fire Professionals of America, Local 451 (bargaining unit) who have completed at least 3 months of continuous, active employment.
Class 9	All active, Employees who are covered by the collective bargaining agreement between Newport News Shipbuilding and International Association of Fire Fighters, Local I-45 (bargaining unit) who have completed at least 3 months of continuous, active employment.
Class 10	Former hourly Employees of Northrop Grumman's PEI facility on disability leave commencing June 9, 2006.
Class 11	Former hourly Employees of Northrop Grumman's PEI facility on disability leave commencing August 16, 2006.
Class 12	Hourly Employees of Northrop Grumman's PEI facility.
Class 13	All active, Employees of Ingalls represented by a collective bargaining agreement.
Class 14	All active, Employees of Avondale represented by a collective bargaining agreement.
Class 15	All former Litton Corporate Office Employees under a CIC agreement.

## SCHEDULE OF BENEFITS FOR CLASS 1

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This *Schedule of Benefits* shows maximums, benefit periods and any limitations applicable to benefits provided in this Policy for each Covered Person unless otherwise indicated. Principal Sum, when referred to in this Schedule, means the Employee's Principal Sum in effect on the date of the Covered Accident causing the Covered Injury or Covered Loss unless otherwise specified.

### Eligibility Waiting Period

The Eligibility Waiting Period is the period of time the Employee must be in a Covered Class to be eligible for coverage.

For Employees hired on or before the Policy Effective Date:	None
For Employees hired after the Policy Effective Date:	None

### Time Period for Loss:

Any Covered Loss must occur within: 365 days of the Covered Accident

### BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS

Employee Principal Sum: 6 times the Employee's Annual Compensation to a maximum of \$1,000,000

Changes in the Covered Person's amount of insurance resulting from a change in the Employee's amount of Annual Compensation take effect, subject to any Active Service requirement, on the effective date of the change in Annual Compensation.

### SCHEDULE OF COVERED LOSSES

<b>Covered Loss</b>	<b>Benefit</b>
Loss of Life	100% of the Principal Sum
Loss of Two or More Hands or Feet	100% of the Principal Sum
Loss of Sight of Both Eyes	100% of the Principal Sum
Loss of One Hand or One Foot and Sight in One Eye	100% of the Principal Sum
Loss of Speech and Hearing (in both ears)	100% of the Principal Sum
Quadriplegia	100% of the Principal Sum
Paraplegia	75% of the Principal Sum
Hemiplegia	50% of the Principal Sum
Coma	
Monthly Benefit	1% of the Principal Sum
Number of Monthly Benefits	11
When Payable	At the end of each month during which the Covered Person remains comatose
Lump Sum Benefit	100% of the Principal Sum
When Payable	Beginning of the 12 <sup>th</sup> month
Loss of One Hand or Foot	75% of the Principal Sum
Loss of Sight in One Eye	60% of the Principal Sum
Loss of Speech	85% of the Principal Sum
Loss of Hearing (in both ears)	85% of the Principal Sum
Severance and Reattachment of One Hand or Foot	25% of the Principal Sum
Loss of Thumb and Index Finger of the Same Hand	25% of the Principal Sum
Maximum for all Covered Losses from any one Covered Accident	100% of the Principal Sum

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

Accidental Death and Dismemberment benefits are provided under the following coverages. Any benefits payable under them are as shown in the *Schedule of Covered Losses* and are not paid in addition to any other Accidental Death and Dismemberment benefits.

<b>EXPOSURE AND DISAPPEARANCE COVERAGE</b>	Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> .
<b>HIJACKING AND AIR PIRACY COVERAGE</b>	Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> .
<b>OWNED AIRCRAFT COVERAGE</b>	Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> .
<b>PILOT COVERAGE</b>	Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> .
<b>WAR RISK COVERAGE</b>	Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> .

**ADDITIONAL ACCIDENT BENEFITS**

Any benefits payable under these *Additional Accident Benefits* shown below are paid in addition to any other Accidental Death and Dismemberment benefits payable.

<b>BRAIN DAMAGE BENEFIT</b>	100% of the Covered Person's Principal Sum
<b>FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT</b>	10% multiplied by the percentage of the Covered Person's Principal Sum applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> , subject to a minimum of \$100 and a maximum of \$10,000
Accidental Death and Dismemberment Benefit	
<b>HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT</b>	
Benefit	10% of the Covered Person's Principal Sum subject to a maximum of \$25,000
<b>HOSPITAL STAY BENEFIT</b>	
Benefit Amount	5% of the Covered Person's Principal Sum per month, subject to a minimum of \$250 and a maximum of \$1,000 per month
Maximum Benefit Period	12 months per Hospital Stay per Covered Accident
Benefit Waiting Period	7 days
<b>REHABILITATION BENEFIT</b>	
Benefit per Covered Accident	20% multiplied by the percentage of the Covered Person's Principal Sum applicable to the Covered Loss, as shown in the <i>Schedule of Covered Losses</i> , subject to a minimum of \$4,500 and a maximum of \$18,000
<b>SEATBELT AND AIRBAG BENEFIT</b>	
Seatbelt Benefit	20% of the Covered Person's Principal Sum subject to a minimum of \$500 and a maximum of \$25,000
Airbag Benefit	10% of the Covered Person's Principal Sum subject to a minimum of \$250 and a maximum of \$10,000

**SPOUSE OR DOMESTIC PARTNER  
SURVIVOR BENEFIT**

Benefit \$12,000

**INITIAL PREMIUM RATES**

Premium Rate: Basic Insurance  
Employee Rate:\$0.017 per \$1,000

Mode of Premium Payment: Monthly

Contributions: The cost of the coverage is paid by the Subscriber

Premium Due Dates: The Policy Effective Date and the first day of each succeeding modal period

Premium rates are subject to change in accordance with the *Changes in Premium Rates* section contained in the *Administrative Provisions* section of this Policy.

GA-00-1120.00

[Terms applicable to non-executives intentionally omitted]

## GENERAL DEFINITIONS

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Please note that certain words used in this Policy have specific meanings. The words defined below and capitalized within the text of this Policy have the meanings set forth below.

### **Active Service**

An Employee will be considered in Active Service with his Employer on any day that is either of the following:

1. one of the Employer's scheduled work days on which the Employee is performing his regular duties on a full-time basis, either at one of the Employer's usual places of business or at some other location to which the Employer's business requires the Employee to travel;
2. a scheduled holiday, vacation day or period of Employer-approved paid leave of absence, other than sick leave, only if the Employee was in Active Service on the preceding scheduled workday.

A person other than an Employee is considered in Active Service if he is not an Inpatient in a Hospital.

### **Age**

A Covered Person's Age, for purposes of initial premium calculations, is his Age attained on the date coverage becomes effective for him under this Policy. Thereafter, it is his Age attained on his last birthday.

### **Aircraft**

A vehicle which:

1. is designed to fly above the earth's surface; and
2. is being flown by a pilot with a valid license, if applicable to operate the Aircraft.

### **Annual Compensation**

An Employee's gross straight-time pay for regularly scheduled hours for a seven-day week, excluding bonuses, overtime, incentive compensation allowances, benefit dollars or other types of special compensation or as determined by the Subscriber and/or its subsidiaries.

### **Covered Accident**

A sudden, unforeseeable, external event that results, directly and independently of all other causes, in a Covered Injury or Covered Loss and meets all of the following conditions:

1. occurs while the Covered Person is insured under this Policy;
2. is not contributed to by disease, Sickness, mental or bodily infirmity;
3. is not otherwise excluded under the terms of this Policy.

### **Covered Injury**

Any bodily harm that results directly and independently of all other causes from a Covered Accident.

### **Covered Loss**

A loss that is all of the following:

1. the result, directly and independently of all other causes, of a Covered Accident;
2. one of the Covered Losses specified in the *Schedule of Covered Losses*;
3. suffered by the Covered Person within the applicable time period specified in the *Schedule of Benefits*.

### **Covered Person**

An eligible person, as defined in the *Schedule of Benefits*, for whom an enrollment form has been accepted by Us and required premium has been paid when due and for whom coverage under this Policy remains in force. The term Covered Person shall include, where this Policy provides coverage, an eligible Spouse or Domestic Partner.

**Domestic Partner**

A person who is registered as the covered Employee's domestic partner with the California Secretary of State. If there is no domestic partner registered with the California Secretary of State, "Domestic Partner" means a person who meets all of the following criteria:

1. shares the covered Employee's permanent residence;
2. has resided with the covered Employee continuously for at least six months and is expected to reside with the covered Employee indefinitely;
3. is financially interdependent with the covered Employee;
4. is no less than 18 years of age;
5. is not legally married to any other person;
6. is not a blood relative any closer than would prohibit legal marriage.

In addition to the above requirements, consent of either party due to the Domestic Partner relationship must not have been obtained by force, duress or fraud.

A covered Employee may insure a Domestic Partner if all of the following conditions are met:

- a. For domestic partnerships registered with the California Secretary of State, the Domestic Partner is the only person meeting the Policy's definition of "Domestic Partner" with respect to the covered Employee.
- b. For domestic partnerships not registered with the California Secretary of State:
  - i. the covered Employee has not been married to any person within the past 12 months;
  - ii. the Domestic Partner is the only person meeting this Policy's definition of "Domestic Partner" with respect to the covered Employee;
  - iii. the covered Employee furnishes an affidavit or signed statement reflecting these requirements, and an agreement to notify Us if the requirements cease to be met, on a form acceptable to Us.

**Employee**

For eligibility purposes, an Employee of the Employer who is in one of the Covered Classes as defined by that business unit.

**Employer**

The Subscriber and any affiliates, subsidiaries or divisions shown in the *Schedule of Covered Affiliates* and which are covered under this Policy on the date of issue or subsequently agreed to by Us.

**He, His, Him**

Refers to any individual, male or female.

**Hospital**

An institution that meets all of the following:

1. it is licensed as a Hospital pursuant to applicable law;
2. it is primarily and continuously engaged in providing medical care and treatment to sick and injured persons;
3. it is managed under the supervision of a staff of medical doctors;
4. it provides 24-hour nursing services by or under the supervision of a graduate registered nurse (R.N.);
5. it has medical, diagnostic and treatment facilities, with major surgical facilities on its premises, or available on a prearranged basis;
6. it charges for its services.

The term Hospital does not include a clinic, facility, or unit of a Hospital for:

1. rehabilitation, convalescent, custodial, educational or nursing care;
2. the aged, drug addicts or alcoholics;
3. a Veteran's Administration Hospital or Federal Government Hospital unless the Covered Person incurs an expense.

<b>Hospital Stay</b>	A confinement in a Hospital, ordered by a Physician, over a period of time when room and board and general nursing care are provided at a per diem charge made by the Hospital. The Hospital Stay must result directly and independently of all other causes from a Covered Accident. Separate Hospital Stays due to the same Covered Accident will be treated as one Hospital Stay unless separated by at least 90 days.
<b>Inpatient</b>	A Covered Person who is confined for at least one full day's Hospital room and board. The requirement that a person be charged for room and board does not apply to confinement in a Veteran's Administration Hospital or Federal Government Hospital and in such case, the term 'Inpatient' shall mean a Covered Person who is required to be confined for a period of at least a full day as determined by the Hospital.
<b>Nurse</b>	A licensed graduate Registered Nurse (R.N.), a licensed practical Nurse (L.P.N.) or a licensed vocational Nurse (L.V.N.) and who is not: <ol style="list-style-type: none"> <li>1. employed or retained by the Subscriber;</li> <li>2. living in the Covered Person's household; or</li> <li>3. a parent, sibling, spouse or Domestic Partner or child of the Covered Person.</li> </ol>
<b>Outpatient</b>	A Covered Person who receives treatment, services and supplies while not an Inpatient in a Hospital.
<b>Permanently Totally Disabled</b>	A Covered Person who is Totally Disabled and is expected to remain Totally Disabled, as certified by a Physician, for the rest of his life.
<b>Prior Plan</b>	The plan of insurance providing similar benefits, sponsored by the Employer in effect immediately prior to this Policy's Effective Date.
<b>Physician</b>	A licensed health care provider practicing within the scope of his license and rendering care and treatment to a Covered Person that is appropriate for the condition and locality and who is not: <ol style="list-style-type: none"> <li>1. employed or retained by the Subscriber;</li> <li>2. living in the Covered Person's household;</li> <li>3. a parent, sibling, spouse or Domestic Partner or child of the Covered Person.</li> </ol>
<b>Sickness</b>	A physical or mental illness.
<b>Spouse</b>	The Employee's lawful spouse.
<b>Subscriber</b>	Any participating organization that subscribes to the trust to which this Policy is issued.
<b>Totally Disabled or Total Disability</b>	Totally Disabled or Total Disability means either: <ol style="list-style-type: none"> <li>1. inability of the Covered Person who is currently employed to do any type of work for which he is or may become qualified by reason of education, training or experience; or</li> <li>2. inability of the Covered Person who is not currently employed to perform all of the activities of daily living including eating, transferring, dressing, toileting, bathing, and continence, without human supervision or assistance.</li> </ol>
<b>We, Us, Our</b>	Life Insurance Company of North America.

## ELIGIBILITY AND EFFECTIVE DATE PROVISIONS

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### Subscriber Effective Date

Accident Insurance Benefits become effective for each Subscriber in consideration of the Subscriber's application, Subscription Agreement and payment of the initial premium when due. Insurance coverage for the Subscriber becomes effective on the Effective Date of Subscriber Participation as long as the Minimum Participation Requirement shown in the *Schedule of Benefits* has been satisfied.

### Eligibility

An Employee becomes eligible for insurance under this Policy on the date he meets all of the requirements of one of the Covered Classes and completes any Eligibility Waiting Period, as shown in the *Schedule of Benefits*. A Spouse or Domestic Partner of an eligible Employee becomes eligible for any dependent insurance provided by this Policy on the later of the date the Employee becomes eligible and the date the Spouse or Domestic Partner meets the applicable definition shown in the *Definitions* section of this Policy. No person may be eligible for insurance under this Policy as both an Employee and a Spouse or Domestic Partner at the same time.

### Effective Date for Individuals

Insurance becomes effective for an eligible Employee, subject to the *Deferred Effective Date* provision below, on the later of the following dates:

1. the effective date of this Policy;
2. the date the Employee becomes eligible.

Insurance becomes effective for an Employee's eligible dependents, subject to the *Deferred Effective Date* provision below, on the latest of the following dates:

1. the effective date of this Policy;
2. the date the Employee becomes eligible;
3. the date the Employee's insurance becomes effective;
4. the date the dependent meets the definition of Spouse or Domestic Partner.

### DEFERRED EFFECTIVE DATE

#### Active Service

The effective date of insurance will be deferred for any Employee or any eligible Spouse or Domestic Partner who is not in Active Service on the date coverage would otherwise become effective. Coverage will become effective on the later of the date he returns to Active Service and the date coverage would otherwise have become effective.

#### Effective Date of Changes

Any increase or decrease in the amount of insurance for the Covered Person resulting from:

1. a change in benefits provided by this Policy; or
2. a change in the Employee's Covered Class will take effect on the date of such change.

Increases will take effect subject to any Active Service requirement.

### TERMINATION OF INSURANCE

The insurance on a Covered Person will end on the earliest date below:

1. the date this Policy ends;
2. the date the insurance for the Covered Person's Covered Class ends;
3. the next premium due date after the date the Covered Person is no longer in a Covered Class;
4. the last day of the last period for which premium is paid.

Termination will not affect a claim for a Covered Loss or Covered Injury that is the result, directly and independently of all other causes, of a Covered Accident that occurs while coverage was in effect, subject to all other terms of the Policy.

### Continuation for Family, Medical, Educational or Personal Leave

Insurance for an Employee and Covered Dependents may be continued in accordance with the Employer's personnel policies if: (a) an Employee is on an Employer-approved Family Leave, Medical Leave, Educational Leave or Personal Leave; and (b) required premium contributions are paid when due.



## COMMON EXCLUSIONS

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In addition to any benefit-specific exclusions, benefits will not be paid for any Covered Injury or Covered Loss which, directly or indirectly, in whole or in part, is caused by or results from any of the following unless coverage is specifically provided for by name in the *Description of Coverages and Benefits* Section:

1. intentionally self-inflicted Injury, suicide or any attempt thereat while sane or insane;
2. commission or attempt to commit a felony or an assault;
3. declared or undeclared war or act of war;
4. flight in, boarding or alighting from an Aircraft or any craft designed to fly above the Earth's surface, except as a passenger in an Aircraft piloted by properly qualified and licensed pilots holding current and valid certificates of competency of a rating authorizing them to pilot such Aircraft;
5. Sickness, disease, bodily or mental infirmity, bacterial or viral infection or medical or surgical treatment thereof (except surgical or medical treatment required by an Accident), except for any bacterial infection resulting from an accidental external cut or wound or accidental ingestion of contaminated food;
6. voluntary ingestion of any narcotic, drug, poison, gas or fumes, unless prescribed or taken under the direction of a Physician and taken in accordance with the prescribed dosage;
7. a Covered Accident that occurs while engaged in the activities of active duty service in the military, navy or air force of any country or international organization. Covered Accidents that occur while engaged in Reserve or National Guard training are not excluded until training extends beyond 31 days;
8. operating any type of vehicle while under the influence of alcohol or any drug, narcotic or other intoxicant including any prescribed drug for which the Covered Person has been provided a written warning against operating a vehicle while taking it. Under the influence of alcohol, for purposes of this exclusion, means intoxicated, as defined by the law of the state in which the Covered Accident occurred.

GA-00-1401.00

## **CONVERSION PRIVILEGE**

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If the Covered Person's insurance or any portion of it ends for any of the following reasons:

- a. employment or membership ends;
- b. eligibility ends;

the Covered Person may have Us issue converted accident insurance on an individual policy or an individual certificate under a designated group policy. The Covered Person may apply for an amount of coverage that is:

- a. in \$1,000 increments;
- b. not less than \$25,000, regardless of the amount of insurance under the group policy; and
- c. not more than the amount of insurance he had under the group policy, except as provided above, up to a maximum amount of \$250,000.

The Covered Person must be under age 70 to get a converted policy.

If the Covered Person's insurance or any portion of it ends for non-payment of premium, he may not convert.

The converted policy or certificate will cover accidental death and dismemberment. The policy or certificate will not contain disability or other additional benefits. The Covered Person need not show Us that he is insurable.

If the Covered Person has converted his group coverage and later becomes insured under the same group plan as before, he may not convert a second time unless he provides, at his own expense, proof of insurability or proof the prior converted policy is no longer in force.

The Covered Person must apply for the individual policy within 90 days after his coverage under this Group Policy ends and pay the required premium, based on Our table of rates for such policies, his Age and class of risk. If the Covered Person has assigned ownership of his group coverage, the owner/assignee must apply for the individual policy.

If the Covered Person dies during the first 31 days of this 90-day period as the result of an accident that would have been covered under this Group Policy, We will pay as a claim under this Group Policy the amount of insurance that the Covered Person was entitled to convert. It does not matter whether the Covered Person applied for the individual policy or certificate. If such policy or certificate is issued, it will be in exchange for any other benefits under this Group Policy.

The individual policy or certificate will take effect on the day following the date coverage under the Group Policy ended; or, if later, the date application is made.

### **Exclusions**

The converted policy may exclude the hazards or conditions that apply to the Covered Person's group coverage at the time it ends. We will reduce payment under the converted policy by the amount of any benefits paid under the group policy if both cover the same loss.

GA-00-1501.00

## **CLAIM PROVISIONS**

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### **Notice of Claim**

Written or authorized electronic/telephonic notice of claim must be given to Us within 31 days after a Covered Loss occurs or begins or as soon as reasonably possible. If written or authorized electronic/telephonic notice is not given in that time, the claim will not be invalidated or reduced if it is shown that written or authorized electronic/telephonic notice was given as soon as was reasonably possible. Notice can be given to Us at Our Home Office in Philadelphia, Pennsylvania, such other place as We may designate for the purpose, or to Our authorized agent. Notice should include the Subscriber's name and policy number and the Covered Person's name, address, policy and certificate number.

### **Claim Forms**

We will send claim forms for filing proof of loss when We receive notice of a claim. If such forms are not sent within 15 days after We receive notice, the proof requirements will be met by submitting, within the time fixed in this Policy for filing proof of loss, written or authorized electronic proof of the nature and extent of the loss for which the claim is made.

### **Claimant Cooperation Provision**

Failure of a claimant to cooperate with Us in the administration of the claim may result in termination of the claim. Such cooperation includes, but is not limited to, providing any information or documents needed to determine whether benefits are payable or the actual benefit amount due.

### **Proof of Loss**

Written or authorized electronic proof of loss satisfactory to Us must be given to Us at Our office, within 90 days of the loss for which claim is made. If (a) benefits are payable as periodic payments and (b) each payment is contingent upon continuing loss, then proof of loss must be submitted within 90 days after the termination of each period for which We are liable. If written or authorized electronic notice is not given within that time, no claim will be invalidated or reduced if it is shown that such notice was given as soon as reasonably possible. In any case, written or authorized electronic proof must be given not more than two years after the time it is otherwise required, except if proof is not given solely due to the lack of legal capacity.

### **Time of Payment of Claims**

We will pay benefits due under this Policy for any loss other than a loss for which this Policy provides any periodic payment immediately upon receipt of due written or authorized electronic proof of such loss. Subject to due written or authorized electronic proof of loss, all accrued benefits for loss for which this Policy provides periodic payment will be paid monthly unless otherwise specified in the benefits descriptions and any balance remaining unpaid at the termination of liability will be paid immediately upon receipt of proof satisfactory to Us.

### **Payment of Claims**

All benefits will be paid in United States currency. Benefits for loss of life will be payable in accordance with the Beneficiary provision and these Claim Provisions. All other proceeds payable under this Policy, unless otherwise stated, will be payable to the covered Employee or to his estate.

If We are to pay benefits to the estate or to a person who is incapable of giving a valid release, We may pay \$1,000 to a relative by blood or marriage whom We believe is equitably entitled. Any payment made by Us in good faith pursuant to this provision will fully discharge Us to the extent of such payment and release Us from all liability.

### **Payment of Claims to Foreign Employees**

The Subscriber may, in a fiduciary capacity, receive and hold any benefits payable to covered Employees whose place of employment is other than:

1. the United States of America;
2. Puerto Rico; or
3. the Dominion of Canada.

We will not be responsible for the application or disposition by the Subscriber of any such benefits paid. Our payments to the Subscriber will constitute a full discharge of Our liability for those payments under this Policy.

**Physical Examination and Autopsy**

We, at Our own expense, have the right and opportunity to examine the Covered Person when and as often as We may reasonably require while a claim is pending and to make an autopsy in case of death where it is not forbidden by law.

**Legal Actions**

No action at law or in equity may be brought to recover under this Policy less than 60 days after written or authorized electronic proof of loss has been furnished as required by this Policy. No such action will be brought more than three years after the time such written proof of loss must be furnished.

**Beneficiary**

The beneficiary is the person or persons the Employee names or changes on a form executed by him and satisfactory to Us. This form may be in writing or by any electronic means agreed upon between Us and the Subscriber. Consent of the beneficiary is not required to affect any changes, unless the beneficiary has been designated as an irrevocable beneficiary, or to make any assignment of rights or benefits permitted by this Policy. Any Accidental Death Benefit payable at the death of the Employee's Spouse or Domestic Partner will be paid to the Employee or to his estate.

A beneficiary designation or change will become effective on the date the Employee executes it. However, We will not be liable for any action taken or payment made before We record notice of the change at our Home Office.

If more than one person is named as beneficiary, the interests of each will be equal unless the Employee has specified otherwise. The share of any beneficiary who does not survive the Covered Person will pass equally to any surviving beneficiaries unless otherwise specified.

If there is no named beneficiary or surviving beneficiary, or if the Employee dies while benefits are payable to him, We may make direct payment to the first surviving class of the following classes of persons:

1. spouse;
2. estate of the Covered Person.

**Recovery of Overpayment**

If benefits are overpaid, We have the right to recover the amount overpaid by either of the following methods.

1. A request for lump sum payment of the overpaid amount.
2. A reduction of any amounts payable under this Policy.

If there is an overpayment due when the Covered Person dies, We may recover the overpayment from the Covered Person's estate.

GA-00-1600.00

## ADMINISTRATIVE PROVISIONS

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### Premiums

All premium rates are expressed in, and all premiums are payable in, United States currency. The premiums for this Policy will be based on the rates set forth in the *Schedule of Benefits*, the plan and amounts of insurance in effect. If a Covered Person's insurance amounts are reduced due to age, premium will be based on the amounts of insurance in force on the day before the reduction took place.

### Changes in Premium Rates

We may change the premium rates from time to time with at least 31 days advance written notice to the Subscriber. No change in rates will be made until 25 months after the Policy Effective Date. An increase in rates will not be made more often than once in a 12-month period. However, We reserve the right to change rates at any time if any of the following events take place:

1. the terms of this Policy change;
2. the terms of the Subscriber's participation change;
3. a division, subsidiary, affiliated company or eligible class is added or deleted from this Policy;
4. there is a change in the factors bearing on the risk assumed;
5. any federal or state law or regulation is amended to the extent it affects Our benefit obligation.

### Payment of Premium

The first premium is due on the Subscriber's effective date of participation under this Policy. Thereafter, premiums are due on the Premium Due Dates agreed upon between Us and the Subscriber. If any premium is not paid when due, the Subscriber's participation under this Policy will be terminated as of the Premium Due Date on which premium was not paid.

### Grace Period

A Grace Period of 60 days will be granted to each Subscriber for payment of required premiums under this Policy. A Subscriber's participation under this Policy will remain in effect during the Grace Period. The Subscriber is liable to Us for any unpaid premium for the time its participation under this Policy was in force.

GA-00-1700.00

## GENERAL PROVISIONS

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### Entire Contract; Changes

This Policy, including the endorsements, amendments and any attached papers constitutes the entire contract of insurance. No change in this Policy will be valid until approved by one of Our executive officers and endorsed on or attached to this Policy. No agent has authority to change this Policy or to waive any of its provisions.

### Subscriber Participation Under This Policy

An organization may elect to participate under this Policy by submitting a signed Subscriber participation agreement to the Policyholder. No participation by an organization is in effect until approved by Us.

### Misstatement of Fact

If the Covered Person has misstated any fact, all amounts payable under this Policy will be such as the premium paid would have purchased had such fact been correctly stated.

### Certificates

Where required by law, We will provide a certificate of insurance for delivery to the Covered Person. Each certificate will list the benefits, conditions and limits of this Policy. It will state to whom benefits will be paid.

### 30 Day Right To Examine Certificate

If a Covered Person does not like the Certificate for any reason, it may be returned to Us within 30 days after receipt. We will return any premium that has been paid and the Certificate will be void as if it had never been issued.

### Multiple Certificates

The Covered Person may have in force only one certificate at a time under this Policy. If at any time the Covered Person has been issued more than one certificate, then only the largest shall be in effect. We will refund premiums paid for the others for any period of time that more than one certificate was issued.

### Assignment

The rights and benefits under this Policy may not be assigned and any attempt to assign will be void.

### Incontestability

#### 1. Of This Policy or Participation Under This Policy

All statements made by the Subscriber to obtain this Policy or to participate under this Policy are considered representations and not warranties. No statement will be used to deny or reduce benefits or be used as a defense to a claim, or to deny the validity of this Policy or of participation under this Policy unless a copy of the instrument containing the statement is, or has been, furnished to the Subscriber.

After two years from the Policy Effective Date, no such statement will cause this Policy to be contested except for fraud.

#### 2. Of A Covered Person's Insurance

All statements made by a Covered Person are considered representations and not warranties. No statement will be used to deny or reduce benefits or be used as a defense to a claim, unless a copy of the instrument containing the statement is, or has been, furnished to the claimant.

After two years from the Covered Person's effective date of insurance, or from the effective date of increased benefits, no such statement will cause insurance or the increased benefits to be contested except for fraud or lack of eligibility for insurance.

In the event of death or incapacity, the beneficiary or representative shall be given a copy.

### Reporting Requirements

At Our request, the Subscriber or its authorized agent must report to Us the names of persons insured under the Policy as of any specified date and any additional information required by Us.

**Policy Termination**

We may terminate coverage on or after the first anniversary of the policy effective date. The Subscriber may terminate coverage on any premium due date. Written or authorized electronic notice must be given at least 31 days prior to such premium due date.

Termination will not affect a claim for a Covered Loss that is the result, directly and independently of all other causes, of a Covered Accident that occurs while coverage was in effect.

**Reinstatement**

This Policy may be reinstated if it lapsed for nonpayment of premium. Requirements for reinstatement are written application of the Subscriber satisfactory to Us and payment of all overdue premiums. Any premium accepted in connection with a reinstatement will be applied to a period for which premium was not previously paid.

**Clerical Error**

A Covered Person's insurance will not be affected by error or delay in keeping records of insurance under this Policy. If such error or delay is found, We will adjust the premium fairly.

**Conformity with Statutes**

Any provisions in conflict with the requirements of any state or federal law that apply to this Policy are automatically changed to satisfy the minimum requirements of such laws.

**Policy Changes**

We may agree with the Subscriber to modify a plan of benefits without the Covered Person's consent.

**Workers' Compensation Insurance**

This Policy is not in place of and does not affect any requirements for coverage under any Workers' Compensation law.

**Examination of the Policy**

This Group Policy will be available for inspection at the Subscriber's office during regular business hours.

**Examination of Records**

We will be permitted to examine all of the Subscriber's records relating to this Group Policy. Examination may occur at any reasonable time while the Group Policy is in force; or it may occur:

1. at any time for two years after the expiration of this Group Policy; or, if later,
2. upon the final adjustment and settlement of all Group Policy claims.

For purposes of this policy, the Subscriber acts on its own behalf and not as the Covered Person's agent. Under no circumstances will the Subscriber be deemed the agent of US. The actions of the Subscriber will not be considered Our actions.

GA-00-1800.00

## DESCRIPTION OF COVERAGES AND BENEFITS

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This *Description of Coverages and Benefits* Section describes the Accident Coverages and Benefits provided by this Policy. Benefit amounts, benefit periods and any applicable aggregate and benefit maximums are shown in the *Schedule of Benefits*. Certain words capitalized in the text of these descriptions have special meanings within this Policy and are defined in the *General Definitions* section. Please read these and the *Common Exclusions* sections in order to understand all of the terms, conditions and limitations applicable to these coverages and benefits.

### ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS

**Covered Loss** We will pay the benefit for any one of the Covered Losses listed in the *Schedule of Benefits*, if the Covered Person suffers a Covered Loss resulting directly and independently of all other causes from a Covered Accident within the applicable time period specified in the *Schedule of Benefits*.

If the Covered Person sustains more than one Covered Loss as a result of the same Covered Accident, the maximum benefit that will be paid for all Covered Losses is the Principal Sum. If the loss results in death, benefits will only be paid under the Loss of Life benefit provision. Any Loss of Life benefit will be reduced by any paid or payable Accidental Dismemberment benefit. However, if such Accidental Dismemberment benefit equals or exceeds the Loss of Life benefit, no additional benefit will be paid.

### Definitions

**Loss of a Hand or Foot** means complete Severance through or above the wrist or ankle joint.

**Loss of Sight** means the total, permanent loss of all vision in one eye which is irrecoverable by natural, surgical or artificial means.

**Loss of Speech** means total and permanent loss of audible communication which is irrecoverable by natural, surgical or artificial means.

**Loss of Hearing** means total and permanent loss of ability to hear any sound in both ears which is irrecoverable by natural, surgical or artificial means.

**Loss of a Thumb and Index Finger of the Same Hand** means complete Severance through or above the metacarpophalangeal joints of the same hand (the joints between the fingers and the hand).

**Paralysis or Paralyzed** means total loss of use of a limb. A Physician must determine the loss of use to be complete and irreversible.

**Quadriplegia** means total Paralysis of both upper and both lower limbs.

**Hemiplegia** means total Paralysis of the upper and lower limbs on one side of the body.

**Paraplegia** means total Paralysis of both lower limbs or both upper limbs.

**Coma** means a profound state of unconsciousness which resulted directly and independently from all other causes from a Covered Accident, and from which the Covered Person is not likely to be aroused through powerful stimulation. This condition must be diagnosed and treated regularly by a Physician. Coma does not mean any state of unconsciousness intentionally induced during the course of treatment of a Covered Injury unless the state of unconsciousness results from the administration of anesthesia in preparation for surgical treatment of that Covered Accident.



**Severance** means the complete and permanent separation and dismemberment of the part from the body.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* section.

GA-00-2100.00

### **ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

Accidental Death and Dismemberment benefits are provided under the following coverages. Any benefits payable under them are shown in the *Schedule of Covered Losses* and will not be paid in addition to any other Accidental Death and Dismemberment benefits payable.

#### **EXPOSURE AND DISAPPEARANCE COVERAGE**

Benefits for Accidental Death and Dismemberment, as shown in the *Schedule of Covered Losses*, will be payable if a Covered Person suffers a Covered Loss which results directly and independently of all other causes from unavoidable exposure to the elements following a Covered Accident.

If the Covered Person disappears and is not found within one year from the date of the wrecking, sinking or disappearance of the conveyance in which the Covered Person was riding in the course of a trip which would otherwise be covered under this Policy, it will be presumed that the Covered Person's death resulted directly and independently of all other causes from a Covered Accident.

**Exclusions** The exclusions that apply to this coverage are in the *Common Exclusions* Section.

GA-00-2202.00

#### **HIJACKING AND AIR PIRACY COVERAGE**

Benefits for Accidental Death and Dismemberment, as shown in the *Schedule of Covered Losses*, will be payable if the Covered Person suffers a Covered Loss resulting directly and independently of all other causes from a Covered Accident that occurs during the hijacking, air piracy, or unlawful seizure or attempted seizure of an Aircraft.

**Exclusions** The exclusions that apply to this coverage are in the *Common Exclusions* Section.

GA-00-2203.00

#### **OWNED AIRCRAFT COVERAGE**

Benefits for Accidental Death and Dismemberment, as shown in the *Schedule of Covered Losses*, will be payable if the Covered Person suffers a Covered Loss that results directly and independently of all other causes from a Covered Accident that occurs during travel or flight in, including getting in or out of, any Aircraft that is owned, leased, operated or controlled by the Subscriber or any of its subsidiaries or affiliates. A record of eligible Aircraft will be maintained by the Subscriber and available for review by Us at any time during normal business hours. An Aircraft substituted for an eligible Aircraft will also be eligible if it has no greater seating capacity and the original Aircraft is withdrawn from normal use due to breakdown, repair, servicing, loss or destruction. An Aircraft will be deemed to be "controlled" by the Subscriber if the Aircraft may be used as the Subscriber wishes for more than 10 straight days, or more than 15 days in any year.

**Exclusions** The exclusions that apply to this coverage are in the *Common Exclusions* Section.

GA-00-2205.00

#### **PILOT COVERAGE**

Benefits for Accidental Death and Dismemberment, as shown in the *Schedule of Covered Losses*, will be payable if the Covered Person suffers a Covered Loss resulting directly and independently of all other causes from a Covered Accident that occurs while the Covered Person is flying as a licensed pilot or member of the crew of an Aircraft and meets all of the following requirements:

1. is flying as a pilot or member of the crew of an Aircraft for which he is qualified.
2. is not giving or receiving flight instruction.

**Exclusions** The exclusions that apply to this coverage are in the *Common Exclusions* Section.

GA-00-2206.00

## **WAR RISK COVERAGE**

Benefits for Accidental Death and Dismemberment as shown in the *Schedule of Covered Losses*, will be payable, subject to the following conditions and exclusions, if a Covered Person suffers a Covered Loss that results directly and independently of all other causes from a Covered Accident that occurs during war or acts of war that occur worldwide, except for countries where travel is permitted only under licenses granted by the Office of Foreign Assets Control, unless such license is granted, or not required, or when such travel is undertaken at the request or under the direction of the United States Government.

The Subscriber may cancel this war risk coverage at any time by sending written notice to Us at Our home office address. Coverage will be canceled upon receipt of notice or a date specified by the Subscriber.

**Exclusions** This benefit does not provide coverage when a Covered Loss occurs:

1. in the United States and its territories and possessions; or
2. in any nation of which the Covered Person is a citizen.

Other exclusions that apply to this coverage are in the *Common Exclusions* Section.

GA-00-2262.00

## **ADDITIONAL ACCIDENT BENEFITS**

Accidental Death and Dismemberment benefits are provided under the following Additional Benefits. Any benefits payable under them will be paid in addition to any other Accidental Death and Dismemberment benefit payable.

### **BRAIN DAMAGE BENEFIT**

We will pay the benefit shown in the *Schedule of Benefits* if a Covered Person suffers a Covered Injury that results directly and independently of all other causes from a Covered Accident and results in Brain Damage. The benefit will be payable if all of the following conditions are met:

1. Brain Damage begins within 60 days from the date of the Covered Accident;
2. the Covered Person is hospitalized for treatment of Brain Damage at least seven days within the first 120 days following the Covered Accident;
3. Brain Damage continues for 12 consecutive months;
4. a Physician determines that as a result of Brain Damage, the Covered Person is Permanently Totally Disabled at the end of the 12 consecutive month period.

The benefit will be paid in one lump sum at the beginning of the 13th month following the date of the Covered Accident if Brain Damage continues longer than 12 consecutive months. The amount payable will not exceed the Accidental Death and Dismemberment Principal Sum for the Covered Person whose Covered Accident is the basis of the claim.

**Definition** For purposes of this benefit:

**Brain Damage** means physical damage to the brain that results directly and independently of all other causes from a Covered Accident and causes the Covered Person to be Permanently Totally Disabled.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2217.00

### **FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

We will pay the amount shown in the *Schedule of Benefits*, subject to the following conditions and exclusions, when the Covered Person suffers a Covered Loss resulting directly and independently of all other causes from a Covered Accident that occurs during a violent crime or felonious assault as described below. A police report detailing the felonious assault or violent crime must be provided before any benefits will be paid.

To qualify for benefit payment, the Covered Accident must occur during any of the following:

1. actual or attempted robbery or holdup;
2. actual or attempted kidnapping;
3. any other type of intentional assault that is a crime classified as a felony by the governing statute or common law in the state where the felony occurred.

**Definitions** For purposes of this benefit:

**Family Member** means the Covered Person's parent, step-parent, Spouse or Domestic Partner or former Spouse or Domestic Partner, son, daughter, brother, sister, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, aunt, uncle, cousins, grandparent, grandchild and stepchild.

**Fellow Employee** means a person employed by the same Employer as the Covered Person or by an Employer that is an affiliated or subsidiary corporation. It shall also include any person who was so employed, but whose employment was terminated not more than 45 days prior to the date on which the defined violent crime/felonious assault was committed.

**Member of the Same Household** means a person who maintains residence at the same address as the Covered Person.

**Exclusions** Benefits will not be paid for treatment of any Covered Injury sustained or Covered Loss incurred during any:

1. violent crime or felonious assault committed by the Covered Person; or
2. felonious assault or violent crime committed upon the Covered Person by a Fellow Employee, Family Member, or Member of the Same Household.

Other exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2234.00

#### **HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

We will pay the Home Alteration and Vehicle Modification Benefit shown in the *Schedule of Benefits*, subject to the following conditions and exclusions, when the Covered Person suffers a Covered Loss, other than a Loss of Life, resulting directly and independently of all other causes from a Covered Accident.

This benefit will be payable if all of the following conditions are met:

1. prior to the date of the Covered Accident causing such Covered Loss, the Covered Person did not require the use of any adaptive devices or adaptation of residence and/or vehicle;
2. as a direct result of such Covered Loss, the Covered Person now requires such adaptive devices or adaptation of residence and/or vehicle to maintain an independent lifestyle;
3. the Covered Person requires home alteration or vehicle modification within one year of the date of the Covered Accident.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2236.00

#### **HOSPITAL STAY BENEFIT**

We will pay the monthly benefit shown in the *Schedule of Benefits*, subject to the following conditions and exclusions, if the Covered Person requires a Hospital Stay due to a Covered Loss resulting directly and independently of all other causes from a Covered Accident.

The Hospital Stay must meet all of the following:

1. be at the direction and under the care of a Physician;
2. begin within 90 days of the Covered Accident;
3. begin while the Covered Person's insurance is in effect.

The benefit will be paid for each day of a continuous Hospital Stay that continues after the end of the Benefit Waiting Period as shown in the *Schedule of Benefits*. Benefits will be paid retroactively to the first day of the Hospital Stay. If benefits are calculated on a monthly basis, pro rata payments will be made for confinements of less than one month.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2237.00

## REHABILITATION BENEFIT

We will pay the Rehabilitation Benefit shown in the *Schedule of Benefits*, subject to the following conditions and exclusions, when the Covered Person requires Rehabilitation after sustaining a Covered Loss resulting directly and independently of all other causes from a Covered Accident.

The Covered Person must require Rehabilitation within two years after the date of the Covered Loss.

**Definition** For purposes of this benefit:

**Rehabilitation** means medical services, supplies, or treatment, or Hospital confinement (or part of a Hospital confinement) that satisfies all of the following conditions:

1. are essential for physical rehabilitation required due to the Covered Person's Covered Loss;
2. meet generally accepted standards of medical practice;
3. are performed under the care, supervision or order of a Physician;
4. prepare the Covered Person to return to his or any other occupation.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2248.00

## SEATBELT AND AIRBAG BENEFIT

We will pay the benefit shown in the *Schedule of Benefits*, subject to the conditions and exclusions described below, when the Covered Person dies directly and independently of all other causes from a Covered Accident while wearing a seatbelt and operating or riding as a passenger in an Automobile. An additional benefit is provided if the Covered Person was also positioned in a seat protected by a properly-functioning and properly deployed Supplemental Restraint System (Airbag).

Verification of proper use of the seatbelt at the time of the Covered Accident and that the Supplemental Restraint System properly inflated upon impact must be a part of an official police report of the Covered Accident or be certified, in writing, by the investigating officer(s) and submitted with the Covered Person's claim to Us.

**Definitions** For purposes of this benefit:

**Supplemental Restraint System** means an airbag that inflates upon impact for added protection to the head and chest areas.

**Automobile** means a self-propelled, private passenger motor vehicle with four or more wheels which is a type both designed and required to be licensed for use on the highway of any state or country. Automobile includes, but is not limited to, a sedan, station wagon, sport utility vehicle, or a motor vehicle of the pickup, van, camper, or motor-home type. Automobile does not include a mobile home or any motor vehicle which is used in mass or public transit.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2251.00

## SPOUSE OR DOMESTIC PARTNER SURVIVOR BENEFIT

We will pay the Spouse or Domestic Partner Survivor Benefit shown in the *Schedule of Benefits*, subject to the conditions and exclusions described below, if the covered Employee's death results directly and independently of all other causes from a Covered Accident.

The Spouse or Domestic Partner will receive a lump sum benefit, specified in the *Schedule of Benefits*.

**Exclusions** The exclusions that apply to this benefit are in the *Common Exclusions* Section.

GA-00-2286.00

**LIFE INSURANCE COMPANY OF NORTH AMERICA**  
**Philadelphia, PA 19192-2235**

We, Northrop Grumman Corporation, whose main office address is Los Angeles, CA, hereby approve and accept the terms of Group Policy Number OK 980036 issued by the LIFE INSURANCE COMPANY OF NORTH AMERICA to the TRUSTEE OF THE GROUP INSURANCE TRUST FOR EMPLOYERS IN THE MANUFACTURING INDUSTRY.

This form is to be signed in duplicate. One part is to be retained by Northrop Grumman Corporation; the other part is to be returned to the LIFE INSURANCE COMPANY OF NORTH AMERICA.

Northrop Grumman Corporation

Signature and Title: \_\_\_\_\_ Date: \_\_\_\_\_

(This Copy Is To Be Returned To Life Insurance Company of North America)

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**LIFE INSURANCE COMPANY OF NORTH AMERICA**  
**Philadelphia, PA 19192-2235**

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This form is to be signed in duplicate. One part is to be retained by Northrop Grumman Corporation; the other part is to be returned to the LIFE INSURANCE COMPANY OF NORTH AMERICA.

Northrop Grumman Corporation

Signature and Title: /s/ D. Catsavas \_\_\_\_\_ Date: 1-6-2009

(This Copy Is To Be Retained By Northrop Grumman Corporation)

## Northrop Grumman Executive Health Plan Matrix

Plan Feature	Benefit
<b>Eligibility</b>	Employee + Spouse & Eligible Dependents
<b>Medical Plan</b>	Premium PPO Plan administered by Anthem Blue Cross Blue Shield
Coverage	100% coverage, for all eligible plan expenses
Annual Deductible	No annual deductible
Co-payment/Co-insurance	No co-payment/No co-insurance
Preventive Care Coverage	No limits as long as procedures fall under Anthem's Guidelines
<b>Prescription Drug Coverage</b>	Covered under Medical Plan
Annual Deductible	No annual deductible
Coverage — retail 30 — day supply	100% coverage, when network pharmacy is utilized
Coverage — mail order 90 — day supply	100% coverage, when network pharmacy is utilized
<b>Vision and Hearing Coverage</b>	\$500 vision/ \$500 per ear per plan year — per covered individual
<b>Acupuncture and Acupressure</b>	20 visits [combined] — per person, per plan year
<b>Chiropractic Care</b>	40 visits per benefit plan year
<b>Physical Therapy</b>	50 visits per benefit plan year (in and out-of-network combined)
<b>Speech Therapy</b>	50 visits per benefit plan year (in and out-of-network combined)
<b>Occupational Therapy</b>	50 visits per benefit plan year (in and out-of-network combined)
<b>Mental Health Coverage</b> Inpatient treatment must be pre-authorized by Value Options(800) 982-8161	Mental health is 100% covered (in and out-of-network combined) Unlimited office visits (in and out-of-network)
Mental Health Maximums	Combined Lifetime Limits — included in \$2 million per person Medical lifetime maximum
<b>Health Plan Lifetime Maximums</b>	\$2,000,000.00 per covered individual, including mental health benefits
<b>Dental Plan</b>	Premium PPO Plan administered by Delta Dental
Annual maximum	\$4,000 per person — per benefit plan year
Coverage	100% coverage, for all eligible plan expenses up to annual maximum
Annual Deductible	No annual deductible
Co-payment/Co-insurance	No co-payment/No co-insurance
<b>Eligibility</b>	Employee
<b>Life Insurance Coverage</b>	Company-paid life insurance 3x Annual base salary up to a maximum of \$2 million
<b>Accidental Death &amp; Dismemberment (AD&amp;D) Coverage</b>	Company-paid accidental death & dismemberment insurance — 6 x Annual base salary up to a maximum of \$1 million
<b>Long-Term Disability (LTD)</b>	Company-paid basic LTD benefit of 75% of monthly base salary, up to a maximum monthly benefit of \$25,000
<b>Executive Physicals</b>	\$2,000/year allowance for executive physical — coverage under Perquisite Program (covers employee only)

Effective 07/01/08

**CONSULTANT CONTRACT**

This consultant contract ("Agreement") is made by and between Northrop Grumman Corporation, a Delaware corporation, with a principal place of business at 1840 Century Park East, Los Angeles, California 90067 ("NGC") and W. Burks Terry ("Consultant").

**I. ENGAGEMENT**

NGC hereby retains Consultant to provide the services described in Attachment A hereto. Consultant shall serve at NGC's call. Consultant's principal point of contact with NGC with respect to the specific nature and scope of the services to be provided hereunder is Stephen D. Yslas, NGC's Corporate Vice President and General Counsel, or his designee.

**II. PLACE OF ENGAGEMENT**

Consultant shall perform the services called for under this Agreement in Los Angeles, California, and at such other places as NGC may reasonably require.

**III. TERM OF ENGAGEMENT**

The term of this Agreement shall be for one (1) year commencing on January 1, 2009 and terminating one (1) year thereafter. This Agreement may be renewed or extended for such additional time as NGC and the Consultant may agree upon in writing.

**IV. COMPENSATION**

**A. Fee.** Consultant agrees to make himself available to perform services for NGC no less than five (5) days per month. NGC shall pay Consultant a fixed fee of Eight Thousand Three Hundred Thirty-Three Dollars (\$8333.00) per month for these services. To the extent that Consultant performs services for NGC for more than five (5) days in any month, such additional services shall be paid at the rate of Two Thousand Five Hundred Dollars (\$2,500) per day for each day in excess of five (5) days (whether a full or partial day). Consultant shall submit monthly activity reports in the format set forth in Exhibit B for each month in which this Agreement is in effect, describing the activities performed

and their date of performance. If no services are provided in a particular month, the report shall so state. Consultant shall also from time to time, provide other types of reports as NGC may reasonably require, at no additional charge. Consultant shall invoice NGC monthly. All payments pursuant to this Agreement shall be made within forty-five (45) days of receipt of a proper invoice and monthly activity report from Consultant. In no event shall the total fees paid to Consultant pursuant to this Agreement exceed Two Hundred Thousand Dollars (\$200,000.00).

**B. Expenses.** NGC shall reimburse Consultant in accordance with NGC policy and procedures for all reasonable and necessary business expenses incurred by Consultant in connection with the rendering of services hereunder provided that all such expenses are approved in advance by Mr. Yslas or his designee. Claims for expenses must be in accordance with NGC's established policies and limitations pertaining to allowable expenses and documented pursuant to the procedures applicable to NGC's employees; provided, however, that Consultant is authorized to utilize first class commercial air travel when available.

**C. Full Extent of Compensation.** Unless otherwise specifically stated in writing, this Section IV represents the full extent of compensation under this Agreement and Consultant shall not be entitled by virtue of this Agreement to be paid a commission or to participate in any insurance, saving, retirement or other benefit programs, including, without limitation, stock ownership plans, offered by NGC to its employees.

**D. Warranty.** Consultant certifies and warrants that in the course of performing services under this Agreement, no payments will be made to government officials or customer representatives, that no government official or customer representative has any direct or indirect investment interest or interest in the revenues or profits of Consultant, and that no expenditure for other than lawful purposes will be made.



## **V. TRADE SECRETS AND PROPRIETARY INFORMATION**

**A. Disclosure To Third Parties Prohibited.** Except as otherwise expressly required by Attachment A hereto, Consultant shall not divulge, disclose or communicate any information concerning any matters affecting or relating to the business of NGC without the express written consent of NGC. The terms of this section shall remain in full force and effect after the termination or expiration of this Agreement.

**B. Ideas, Improvements and Inventions.** Any and all ideas, improvements and inventions conceived of, developed, or first reduced to practice in the performance of work hereunder for NGC shall become the exclusive property of NGC and ideas and developments accruing therefrom shall all be fully disclosed to NGC and shall be the exclusive property of NGC and may be treated and dealt with by NGC as such without payment of further consideration than is hereinabove specified. Consultant shall preserve such ideas, improvements and inventions as confidential during the term of the contract and thereafter and will execute all papers and documents necessary to vest title to such ideas, developments, information, data, improvements and inventions in NGC and to enable NGC to apply for and obtain letters patent on such ideas, developments, information, data, improvements and inventions in any and all countries and to assign to NGC the entire right, title and interest thereto.

**C. Notes, Memoranda, Reports and Data.** Consultant agrees that the original and all copies of notes, memoranda, reports, findings or other data prepared by Consultant in connection with the services performed hereunder shall be attorney work product or shall become the sole and exclusive property of NGC.

**D. Disclosure of Confidential or Proprietary Information of Third Parties Prohibited.** Consultant will not disclose to NGC or induce NGC to use any secret process, trade secret, or other confidential or proprietary knowledge or information belonging to others, including but not limited to the United States. Such information includes but is not limited to information relating to bids, offers, technical proposals,

responses to requests for procurement, rankings of competitors and other similar procurement sensitive information.

**VI. PRESERVATION OF TRADE NAMES, TRADE MARKS AND PATENT RIGHTS**

All trade names, trade marks and patent rights of NGC pertaining to NGC products, including the names “Northrop,” “Grumman,” “Litton,” “Newport News Shipbuilding,” “Ingalls,” “Avondale,” “TRW,” and “Northrop Grumman Corporation” shall remain the sole property of NGC and Consultant agrees to do all things necessary to protect and preserve such trade names, trade marks and patent rights from claims by other persons or entities.

**VII. COOPERATION WITH NORTHROP**

After the expiration of this Agreement, Consultant shall cooperate with NGC in regard to any matter, dispute or controversy in which NGC may become involved and of which Consultant may have knowledge. Such cooperation shall be subject to further agreement providing for legally appropriate compensation.

**VIII. INDEMNIFICATION**

Consultant shall indemnify, defend and hold NGC harmless from any and all claims by third parties for loss or damage to property or injury or death to persons arising out of or relating to the Consultant’s activities or operations or omissions pursuant to this agreement where such actions or operations or omissions were the result of gross negligence or intentional misconduct on the part of the Consultant. NGC shall indemnify, defend and hold Consultant harmless from any and all claims of NGC or of third parties for loss or damage to property or injury or death to persons arising out of or relating to the Consultant’s activities or actions or omissions under this Agreement, resulting from the negligent acts or omissions of NGC, except for loss or damage resulting from the gross negligence or intentional misconduct of Consultant. Consultant is neither obligated nor authorized to engage employees or sub agents pursuant to this Agreement.

**IX. INDEPENDENT CONTRACTOR**

Consultant shall render all services hereunder as an independent contractor and shall not hold out himself as an agent of NGC. Nothing herein shall be construed to create or confer upon Consultant the right to make contracts or commitments for or on behalf of NGC.

**X. TAXES**

Consultant shall pay all taxes due with respect to the compensation paid hereunder.

**XI. OBSERVANCE OF APPLICABLE LAWS AND REGULATIONS**

**A. United States Laws.** Consultant shall comply with and do all things necessary for NGC to comply with United States laws and regulations and express policies of the United States Government, including but not limited to the requirements of the Foreign Corrupt Practices Act, 15 U.S.C. Section 78 dd-1 et seq., the Federal Acquisition Regulations, 48 CFR section 1.101 et seq., ("FAR"), the International Traffic In Arms Regulations, 22 CFR Parts 120 through 130 and applicable regulations; the Byrd Amendment (31 U.S.C. Section 1352) and applicable regulations; the Office of Federal Procurement Policy Act (41 U.S.C. Section 423) and applicable regulations; and the DoD Joint Ethics Regulation (DoD 5500.7-R). No part of any compensation or fee paid by NGC will be used directly or indirectly to make any kickbacks to any person or entity, or to make payments, gratuities, emoluments or to confer any other benefit to an official of any government or any political party. Consultant shall not seek, nor relay to NGC, any classified, proprietary or source selection information not generally available to the public. Consultant shall also comply with and do all things necessary for NGC to comply with provisions of contracts between agencies of the United States Government or their contractors and NGC which relate either to patent rights or the safeguarding of information pertaining to the security of the United States. This entire Agreement and/or the contents thereof may be disclosed to the United States Government.

**B. State Law and Regulations.** Consultant shall comply with and do all things necessary for Consultant and NGC each to comply with all laws and regulations of the State of California and any other state in which services are or may be rendered.

**C. Maintenance Of Time And Expense Records.** Consultant shall maintain appropriate time and expense records pertaining to the services performed under this Agreement. Said records shall be subject to examination and audit by NGC and the United States Government until notified by NGC in writing that the records no longer need to be maintained.

**D. Certification.** This Agreement is made in material reliance upon the representations and warranties made by Consultant. The effectiveness of this Agreement is contingent upon and will not commence until receipt by NGC of the certifications set forth in Attachment C hereto. In the event that NGC has reason to believe that these certifications are incorrect, NGC may treat this Agreement as being null and void or may terminate this Agreement pursuant to Section XVI.

**E. Standards of Business Conduct.** Consultant hereby acknowledges that he has received a copy of the Standards of Business Conduct (or amendment thereof) and agrees to conduct his activities for or on behalf of NGC in accordance with such principles as a condition of this Agreement.

## **XII. ASSIGNMENT OF RIGHTS**

This Agreement and the rights, benefits, duties and obligations contained herein may not be assigned or otherwise transferred in any manner to third parties without the express written approval of NGC. Any such assignment or transfer without prior approval of NGC will be null, void and without effect.

### **XIII. MODIFICATION**

No waiver or modification of this Agreement or of any covenant, condition, or limitation herein shall be valid and enforceable unless such waiver or modification is in writing.

### **XIV. USE OR EMPLOYMENT OF THIRD PARTIES**

Consultant shall not utilize or employ any third party, individual or entity, in connection with Consultant's performance of services under this Agreement without the express written approval of NGC.

### **XV. CONFLICTS OF INTEREST**

No business or legal conflicts of interest shall exist between services performed or to be performed by Consultant on behalf of NGC and by Consultant on behalf of any other client. The identity of Consultant's directorships, other employment and clients shall be fully disclosed in the Certification, Attachment D.

### **XVI. TERMINATION**

**A. Thirty Days Notice.** Either party may terminate this Agreement upon thirty days written notice to the other. Except as otherwise provided herein, in the event of termination, Consultant shall be entitled to compensation until the expiration of the stated notice period.

**B. Violation Of Term Or Condition.** Notwithstanding the foregoing, in the event of a violation by Consultant of any term or condition, express or implied, of this Agreement or of any federal or state law or regulation pertaining to or arising from Consultant's performance of services under this Agreement, NGC may, in its discretion, terminate this Agreement immediately, without notice and in such event, Consultant shall only be entitled to compensation up to the time of such violation.

**C. Bankruptcy.** Notwithstanding the foregoing, in the event that Consultant is adjudicated a bankrupt or petitions for relief under bankruptcy, reorganization, receivership, liquidation, compromise or other arrangement or attempts to make an

assignment for the benefit of creditors, this Agreement shall be deemed terminated automatically, without requirement of notice, without further liability or obligation to NGC.

**D. Completion, Termination, Cancellation or Non-Award of Program.** Notwithstanding the foregoing, in the event of the completion, termination, cancellation or non-award to NGC of any program to which Consultant's services are related, NGC may, in its discretion, terminate this Agreement immediately upon notice to Consultant.

**XVII. SEVERABILITY OF PROVISIONS**

All provisions contained herein are severable and in the event any of them are held to be invalid by any competent court or jurisdiction, this Agreement shall be interpreted as if such invalid provision was not contained herein.

**XVIII. EXCLUSIVITY OF SERVICES**

During the term of this Agreement, Consultant shall not perform consulting services for others without the prior written consent of NGC.

**XIX. AVAILABILITY OF EQUITABLE REMEDIES**

Consultant understands and agrees that any breach or violation of any of the terms of this Agreement will result in immediate and irreparable injury to NGC and will entitle NGC to all legal and equitable remedies including, without limitation, injunction or specific performance.

**XX. GOVERNING LAW**

This Agreement and the performance hereunder shall be governed by and construed in accordance with the laws of the State of California which shall be the exclusive applicable law. Consultant shall submit to the jurisdiction of the courts within the State of California for any claim, demand or suit that may arise in connection with this Agreement and Consultant specifically waives any objection or defense to venue and jurisdiction.

## **XXI. SETTLEMENT OF DISPUTES**

Any controversy or dispute between the parties to this Agreement involving the construction, interpretation, application or performance of the terms, covenants or conditions of this Agreement, or in any way arising under this Agreement, shall, on demand of one of the parties by written notice hereto served on the other in the manner prescribed in Section XXI of this Agreement, be decided by neutral arbitration as provided by California law by a retired judge from the Superior Court of the State of California for the County of Los Angeles. **YOU ARE GIVING UP ANY RIGHTS YOU MAY POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. IF YOU REFUSE TO SUBMIT TO ARBITRATION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.**

**A. Initiation of Procedure.** The Arbitration Procedures may be commenced by any party by filing with the Judicial Arbitration and Mediation Service for the County of Los Angeles, or an equivalent source of retired Los Angeles Superior Court Judges, a petition entitled "PETITION FOR ARBITRATION." The Petition shall recite in a clear and meaningful manner the factual basis of the controversy between the parties and identify the issues to be submitted to the arbitrator for decision.

**B. Arbitrator.** The Petition shall designate as an arbitrator a judge from the list of retired Superior Court judges who have made themselves available for trial or settlement of civil litigation under the CCP Arbitration Procedure. If the parties hereto are unable to agree on the designation of a particular retired Los Angeles County Superior Court judge or the designated judge is unavailable or unable to serve in such capacity, request shall be made in the Petition that the court appoint a retired Los Angeles County Superior Court judge as an Arbitrator.

**C. Compensation for Arbitration.** If the parties are unable to reach an agreement as to the payment of the fees of the arbitration, each side shall bear one-half of the fees. The prevailing party or parties shall be entitled to reimbursement of its or their respective

attorneys' fees and costs, including the costs of the arbitration, from the other party or parties; furthermore, the prevailing party or parties on any appeal from the arbitration decision, shall be entitled to all reasonable attorneys' fees and costs relating to such appeal.

**D. Rules Governing Arbitration/Pleadings.** Except as hereafter agreed by the parties, the Arbitrator shall apply all California rules of procedure and evidence and shall apply the substantive law of California in deciding the issues submitted hereunder, except that the Arbitrator may shorten time limitations in order to resolve the dispute in an expeditious manner. Reasonable notice of any motions before the Arbitrator shall be given, and all matters shall be set at the convenience of the Arbitrator. Discovery shall be conducted as the parties agree or as allowed by the arbitrator.

**E. Jurisdiction of the Arbitrator.** The parties intend by the Procedure to submit all issues of fact and law and all matters of a legal and equitable nature for determination by the Arbitrator with respect to the subject matter hereof and the pleadings hereafter filed with the arbitrator. Accordingly, the parties hereby stipulate that the arbitrator shall have all powers of a judge of the Superior Court, including, the power to grant equitable and interlocutory and permanent injunctive relief, but excluding any power to render judgment for punitive or exemplary damages.

**F. Legal Effect.** The parties acknowledge that the decision by the Arbitrator, when entered by the Superior Court, shall be tantamount to a judgment by a trial court and is subject to appeal and review in the same manner as an ordinary trial court judgment.

## **XXII. NOTICE**

Any notice to be given hereunder shall be in writing, mailed by certified or registered mail with return receipt requested addressed to NGC:

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, CA 90067-2199  
Attention: Fritz Baskett



or to Consultant:

W. Burks Terry

or to such other address as may have been furnished at the date of mailing either by NGC or Consultant in writing.

**XXIII. COMPLETE AGREEMENT**

This Agreement constitutes the entire agreement of the parties with respect to the engagement of Consultant by NGC and supersedes any and all other agreements between the parties. The parties stipulate and agree that neither of them has made any representation with respect to this Agreement except that such representations are specifically set forth herein. The parties acknowledge that any other payments or representations that may have been made are of no effect and that neither party has relied on such payments or representations in connection with this Agreement or the performance of services contemplated herein.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be entered into and executed as set forth below.

**NORTHROP GRUMMAN CORPORATION**

By: /s/ Joseph O. Costello for  
Stephen D. Yslas  
Corporate Vice President and General Counsel

Date: 12-22-08

**ACCEPTED:**

Signed: /s/ W. Burks Terry  
W. Burks Terry

Date: 12/21/08

TIN: \_\_\_\_\_

**ATTACHMENT A  
STATEMENT OF WORK**

**W. BURKS TERRY**

W. Burks Terry (“Consultant”) shall serve Northrop Grumman Corporation (“NGC”) as a management advisory consultant. All work performed under this Agreement will be assigned, managed and approved by Stephen D. Yslas, Corporate Vice President and General Counsel, or his designee.

NGC and Consultant will use their best efforts to maintain Consultant’s top secret security clearance for the time that this Agreement or any extension of it, is in effect. NGC will not provide consultant with office space, secretarial support, laptop computer, Blackberry, cell phone or other similar equipment and support.

Consultant’s primary duties under this Agreement shall be to act as a management advisory consultant with respect to the [microelectronic parts produced by the former TRW Inc. prior to its acquisition by NGC] and TSSAM matters as well as Law Department transition issues, and other similar duties within the scope of this Agreement. All reports required for this effort are outline in Attachment B hereto.

Limitations and Restrictions

Consultant is not authorized to and shall not engage in any of the following activities in its performance of this Agreement:

-Activities covered by the Byrd Amendment (31 U.S.C., Section 1352). Therefore, Consultant shall not influence or attempt to influence an officer or employee of any federal agency, Member of Congress, officer or employee of Congress, or employee of a Member of Congress, in connection with the awarding, extension, continuation, renewal, amendment or modification of any federal contract or cooperative agreement.

-Actions regarding procurement information that are prohibited under FAR Section 3.104. Therefore, Consultant shall not solicit or obtain, directly or indirectly, from any officer or employee of a federal agency, or disclose to NGC, any contractor bid or proposal information or source selection information regarding any federal agency procurement during the conduct of that procurement.

-Actions relating to international contacts. Therefore, Consultant shall not provide services outside the United States nor engage in any communication or contact directly or indirectly, with any foreign person or organization on behalf of NGC.

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**ATTACHMENT B**  
**MONTHLY ACTIVITY REPORT FORMAT**  
**W. BURKS TERRY**

As a Consultant, you are required to submit a written activity report each month directly to the Northrop Grumman Corporation (“NGC”) employee identified in Article I of the Agreement. Each activity report must include the following information:

1. A detailed accounting of the amount of time spent by you on behalf of NGC since your last Activity Report, itemized each hour or by fraction of an hour worked, reflecting the work performed during each periodic segment and the individual who performed it.
2. The identity of all persons with whom you met or discussed business on behalf of NGC, including a description of the business or government affiliation of the individual, as well as the specific position or rank of each person.
3. A statement of the subject matter of all meetings and discussions in which you participated on behalf of NGC, including all NGC programs discussed in connection with any activities performed.
4. An invoice, on a separate page, clearly identifying the Agreement, specifying the time period covered, summarizing the fees and expenses claimed for that time period, and enclosing the original receipts for all claimed expenses. Consultant must certify on each invoice that the charges for the period covered by it do not include any charges for assignments not authorized by the Agreement. A suggested certification is as follows:

“The undersigned certifies that the payment requested herein is correct and just, and that payment has not been received. The undersigned certifies that this invoice does not include any charges for services not authorized by the Agreement and, specifically, that no services have been performed involving the influence or attempt to influence any Federal agency officer or employee, any Member of Congress, officer or employee of Congress, or employee of a Member of Congress, in connection with any Federal action as defined in the Byrd Amendment (including the awarding, extension, continuation, renewal, amendment, or modification of any Federal contract); and that no services have been performed regarding advice, information, direction or assistance to NGC for a Federal contract.”

Unless your services are fully described and accurately recorded in this fashion, your fees will not be paid by NGC. You are not authorized to engage in any activity covered by the Byrd Amendment (31 U.S.C. Section 1352), but if you do so you must clearly identify it as such in your activity report, and the activity you describe shall be treated as a material representation of fact upon which NGC shall rely in preparing any certifications and/or disclosures required by the Byrd Amendment, 31 USC Section 1352. Any and all liability arising from an erroneous representation shall be borne solely by you.

**ATTACHMENT C**

**CERTIFICATION**

**W. BURKS TERRY**

The undersigned, W. Burks Terry ("Consultant"), hereby certifies, represents and warrants the following:

1. In past dealings with Northrop Grumman Corporation ("NGC") or other clients, Consultant has complied with all applicable laws, rules, regulations and express policies of the United States and the State or territory in which services were performed.
2. In performing the services under this Agreement, Consultant will comply with all applicable laws, rules, regulations and express policies of the United States and the State or territory in which services will be performed.
3. There have been no kick-backs or other payments made, either directly or indirectly, to any NGC director, employee or consultant or to the family of any NGC director, employee or consultant.
4. No kick-backs or other payments will be made, either directly or indirectly, to any NGC director, employee or consultant or to the family of any NGC director, employee or consultant.
5. Consultant has not used and will not use any part of the compensation paid by NGC to make payments, gratuities, emoluments or to confer any other benefit to an official of any government, or any political party, or official of any political party.
6. No person or selling agency has been or will be employed or retained to solicit or secure any contract, including but not limited to a United States government contract, upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide

established commercial selling agencies maintained by the Consultant for the purpose of receiving business.

7. No classified, proprietary, source selection or procurement sensitive information has been or will be solicited on behalf of or conveyed to NGC.
8. Consultant has not influenced or attempted to influence and will not influence or attempt to influence any United States government official or employee in connection with the award, extension, continuation, renewal, amendment or modification of a federal contract or otherwise engage in "non-exempt services" within the meaning of the Byrd Amendment, 31 U.S.C. Section 1352.
9. Consultant has not utilized or employed and will not utilize or employ any third party, individual or entity, in connection with the performance of services on behalf of NGC, except as follows: **(if none, state "None"). None**
10. No business or legal conflicts of interest exist between services performed or to be performed by Consultant on behalf of NGC and by Consultant on behalf of any other client, the identities of which Consultant has fully disclosed to NGC.

The person whose signature appears below is authorized by Consultant to certify that the foregoing is true and correct.

I declare under penalty of perjury that the foregoing certificate is true and correct

Signed: /s/ W. B. Terry  
(consultant's name)

Date: 12/20/08

**ATTACHMENT D**  
**CERTIFICATION OF DIRECTORSHIPS, EMPLOYMENT AND CLIENTS**  
**W. BURKS TERRY**

The following is a complete list of directorships, employment and consulting clients:

**I. Directorships and Employment**

<u>Name of Company</u>	<u>Responsibilities/Duties</u>
------------------------	--------------------------------

None

**II. CLIENTS**

<u>Name of Company</u>	<u>Services/Duties</u>
------------------------	------------------------

None

**Signature:** /s/ W. B. Terry

**Date:** 12/20/08



**ATTACHMENT E  
CONFLICT OF INTEREST CERTIFICATION  
W. BURKS TERRY**

Consultant does hereby certify that all contemplated work pursuant to the Agreement will not represent a conflict of interest or violate applicable conflict of interest and "revolving door" laws with respect to past government offices, positions and/or employment.

The identity of Consultant's current and former government offices and government positions are as follows (if none, state "none"):

Name	Office	Inclusive Dates of Services
None		

Signed: /s/ W. B. Terry \_\_\_\_\_

Date: 12/20/08

**THE 2002 INCENTIVE COMPENSATION PLAN OF NORTHROP GRUMMAN  
CORPORATION**

**As amended and restated effective January 1, 2009**

SECTION I

PURPOSE

The purpose of this Plan is to promote the success of the Company and render its operations profitable to the maximum extent by providing for the Senior Executives of the Company incentives that continue to be dependent upon the overall successful performance of the Company. The Senior Executives, for this purpose, are only those elected corporate officers who participate in making the basic and strategic decisions which affect the corporate-wide performance of the Company, together with those Senior Executives who are in charge of significant operating subsidiaries. The Plan is designed to comply with the performance-based compensation exception under Section 162(m) of the Internal Revenue Code of 1986, as amended.

SECTION II

DEFINITIONS

1. COMPANY—Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.
2. CODE—The Internal Revenue Code of 1986, as amended from time to time.
3. COMMITTEE—The Compensation and Management Development Committee of the Board of Directors of the Company. It shall be composed of not less than three members of the Board of Directors, no one of whom shall be an officer or employee of the Company and it shall be constituted so as to permit this Plan to comply with the “outside director” requirement of Code section 162(m).
4. INCENTIVE COMPENSATION—Awards payable under this Plan.
5. PERFORMANCE CRITERIA—Economic Earnings, and for purposes of this Plan, “Economic Earnings” shall mean income from continuing operations before federal and foreign income taxes and the cumulative effect of accounting changes and extraordinary items, less pension income (or plus pension expense) plus amortization and impairment of goodwill and other purchased intangibles, plus restructuring or similar charges to the extent they are separately disclosed in the annual report.
6. PERFORMANCE YEAR—The Year with respect to which an award of Incentive Compensation is calculated and paid.
7. PLAN—This 2002 Incentive Compensation Plan of Northrop Grumman Corporation, as amended and restated effective January 1, 2009.

8. SECTION 162(m) OFFICER—A Participant who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the Plan for a Performance Year.
9. YEAR—The fiscal year of Northrop Grumman Corporation.

SECTION III  
PARTICIPATION

1. The persons eligible to receive Incentive Compensation awards under this Plan are elected corporate officers of the rank of Vice President and above and the Presidents of those consolidated subsidiaries that the Committee determines to be significant in the overall corporate operations who are Section 162(m) Officers.
2. “Participant” is a person granted or eligible to receive an Incentive Compensation award under this Plan.
3. Directors, as such, shall not participate in this Plan, but the fact that an elected corporate officer or subsidiary President is also a Director shall not prevent his participation.
4. The death of a Participant shall not disqualify him for an Incentive Compensation award for the Performance Year in which he dies or the preceding Performance Year. In the case of a deceased Participant, the Incentive Compensation, if any, determined for him for the Performance Year by the Committee shall be paid to his spouse, children, or legal representatives as directed by the Committee.

SECTION IV  
INCENTIVE COMPENSATION APPROPRIATIONS AND AWARDS

1. The amount to be appropriated to the Plan with respect to a Performance Year shall equal two and one-half percent (2.5%) of the Performance Criteria for such Performance Year. The amount appropriated to the Plan for a Performance Year based on the Performance Criteria set forth in this Paragraph 1, SECTION IV shall be referred to as the “Tentative Appropriated Incentive Compensation” for such Performance Year.
2. The amount of the Tentative Appropriated Incentive Compensation for a Performance Year may be reduced (but not increased) by the Committee, in its sole discretion, after taking into account an appraisal of individual and overall Company performance in the attainment of such predetermined financial and non-financial objectives as are selected by the Committee and set forth in writing within the first 90 days of a Performance Year, at a time when it is substantially uncertain whether a Participant will earn any amount of Incentive Compensation. The amount appropriated to the Plan for a Performance Year by the Committee under this Paragraph 2, SECTION IV shall be referred to herein as the “Appropriated Incentive Compensation” for such Performance Year. In no event shall Incentive Compensation payable to Participants for a Performance Year exceed the Appropriated Incentive Compensation under the Plan for such Performance Year. Any

Tentative Appropriated Incentive Compensation for a Performance Year, which is not actually appropriated to the Plan for such Year, shall be forfeited.

3. Incentive Compensation Awards to Section 162(m) Officer:

- (a) Notwithstanding any other provisions of this Plan, any Incentive Compensation award for a Performance Year under this Plan payable to a Section 162(m) Officer must satisfy the requirements of this Paragraph 3, SECTION IV. The purpose of this Paragraph 3 is to ensure compliance by the Plan with the requirements of Section 162(m) of the Code relating to performance-based compensation. Incentive Compensation awards to Section 162(m) Officers under this Plan are subject to:
  - (i) Approval of this Plan and the criteria stated in Paragraph 3(b) of this SECTION IV by the shareholders of the Company;
  - (ii) The maximum amount that may be awarded to any Section 162(m) Officer under the Plan for any Performance Year as stated in Paragraph 3(b) of this SECTION IV; and
  - (iii) Approval by the Committee.
- (b) The maximum potential amount of Appropriated Incentive Compensation (as defined in Paragraph 2 of this SECTION IV) payable to any Participant as an Incentive Compensation award for any single Performance Year shall be limited to no more than thirty percent (30%) for the CEO and seventeen and one-half percent (17.5%) for each of the other four (4) Participants for such Performance Year.
- (c) The Performance Criteria established in Paragraph 5 of SECTION II on which Incentive Compensation awards under the Plan are based shall first apply in the Performance Year 2002, but such Performance Criteria and any Incentive Compensation awards based thereon shall be conditional upon a vote of the shareholders of the Company approving the Plan and the Performance Criteria and performance goals stated herein.
- (d) Prior to the payment of any Incentive Compensation awards for a Performance Year, the Committee shall make a determination and certification in writing as to whether the Section 162(m) Officers have met the Performance Criteria, performance goals, and any other material terms of the Plan for each Performance Year. The Committee may, in its sole discretion, exercise negative discretion by reducing amounts of Incentive Compensation awards to all or any of the Section 162(m) Officers from the maximum potential awards payable by application of Paragraph 3(b) of this SECTION IV. No such reduction shall increase the amount of the maximum award payable to any other Section 162(m) Officer. The Committee shall determine the amount of any reduction in a Section 162(m) Officer's Incentive Compensation award on the basis of such factors as it deems relevant, and it shall not be required to establish any allocation or weighting

component with respect to the factors it considers. The Committee shall have no discretion to increase any Incentive Compensation award for a Performance Year above the amount determined by application of Paragraph 3(b) of this SECTION IV.

4. After the end of a Performance Year, in determining each Participant's Incentive Compensation award for such Year, the Committee may make a downward adjustment after considering such factors as it deems relevant, which shall include but not be limited to the following factors:
  - (a) The evaluation of the Participant's performance during that Performance Year in relation to the Participant's predetermined objectives and the Participant's contribution during such Year to the success or profit of the Company.
  - (b) The classification of the Participant's position, relative to the position of all Participants. The Committee shall make the final determination of each Participant's Incentive Compensation award for a Performance Year.

## SECTION V

### ADMINISTRATION OF THE PLAN

The Committee shall be responsible for the administration of the Plan. The Committee shall:

1. Interpret the Plan, make any rules and regulations relating to the Plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the Plan, after such investigation or hearing as the Committee may deem appropriate.
2. As soon as practicable after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the performance of each Participant and determine the amount of each Participant's individual Incentive Compensation award, if any, with respect to that Performance Year.
3. Have sole discretion in determining Incentive Compensation awards under the Plan, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the Chief Executive Officer of the Company and others whom it may designate.

Any decisions made by the Committee under the provisions of this SECTION V shall be conclusive and binding on all parties concerned. Except as otherwise specifically provided in this Plan, the provisions of this Plan shall be interpreted and administered by the Committee in a manner consistent with the requirements for exemption of Incentive Compensation awards granted to Participants who are Section 162(m) Officers as "performance-based compensation" under Code Section 162(m) and regulations and other interpretations issued by the Internal Revenue Service thereunder.

## SECTION VI

### METHOD OF PAYMENT OF INCENTIVE COMPENSATION TO INDIVIDUALS

1. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash or in Common Stock of the Company (“Northrop Grumman Common Stock”) or partly in cash and partly in Northrop Grumman Common Stock, as the Committee may determine. Payment of an Incentive Compensation award, in cash or in Northrop Grumman Common Stock, with respect to a given Performance Year shall be made in a lump sum between February 15 and March 15 of the year following such Performance Year.
2. The Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the Plan.
3. In making awards of Northrop Grumman Common Stock, the Committee shall first determine all Incentive Compensation awards in terms of dollars. The total dollar amount of all Incentive Compensation awards for a particular Performance Year shall not exceed the Appropriated Incentive Compensation for that Performance Year under this Plan. In the case of Section 162(m) Officers, the total dollar amount of an Incentive Compensation award for a particular Performance Year shall be no greater than the maximum potential awards payable by application of Paragraph 3(b) of SECTION IV. After fixing the total amount of each Participant’s Incentive Compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman Common Stock, the dollar amount of the Incentive Compensation award so to be paid shall be converted into shares of Northrop Grumman Common Stock by using the fair market value of such stock on the date of the award. “Fair market value” shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.
4. If an Incentive Compensation award is paid in Northrop Grumman Common Stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, recapitalizations or other relevant changes in capitalization effective after the date of award and prior to the date as of which the Participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the Participant as the record owner of the shares.
5. Northrop Grumman Common Stock issued in payment of Incentive Compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.
6. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to

the Northrop Grumman Deferred Compensation Plan, the Northrop Grumman Savings Excess Plan, or any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement.

7. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.
8. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.
9. The Committee shall have the exclusive right to interpret the provisions of this SECTION VI, to determine all questions arising under it or in connection with its administration, and to issue regulations and take actions implementing its provisions.

## SECTION VII

### AMENDMENT OR TERMINATION OF PLAN

The Board of Directors of the Company shall have the right to terminate or amend this Plan at any time and to discontinue further appropriations thereto, except that no amendment to the Plan shall be made without the approval of the Shareholders, which would (i) increase the amount authorized for appropriation pursuant to Section IV of this Plan, (ii) permit a member of the Committee to participate in the Plan, or (iii) modify the right of the Committee to make the appropriations or allocations set forth in this Plan.

## SECTION VIII

### EFFECTIVE DATE

This Plan was first effective for Performance Years commencing in 2002, and was amended and restated effective for Performance Years commencing with and following 2008. No appropriations will be made, and no Incentive Compensation shall be paid, under the Plan for Performance Years after 2001 if the Plan is not approved by the Shareholders.

## SECTION IX

### RECOUPMENT

Any payment of an Incentive Compensation award is subject to recoupment pursuant to the Company's Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, and the Participant shall promptly make any reimbursement requested by the Board of Directors of the Company or the Committee pursuant to such policy with respect to any Incentive Compensation award payments. Further, the Participant agrees, by accepting an Incentive Compensation award, that the Company and its affiliates may deduct from any amounts it may owe the Participant from time to time (such as

wages or other compensation) to the extent of any amounts the Participant is required to reimburse the Company pursuant to such policy with respect to the award.

## SECTION X

### MISCELLANEOUS

1. Participation in the Plan shall not constitute an agreement (1) of the Participant to remain in the employ of and to render his/her services to the Company, or (2) of the Company to continue to employ such Participant, and the Company may terminate the employment of a Participant at any time with or without cause.
2. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.
3. All costs of implementing and administering the Plan shall be borne by the Company.
4. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.
5. The Plan, and any agreements hereunder, shall be governed by and construed in accordance with the state of Delaware.



**NORTHROP GRUMMAN 2006 ANNUAL INCENTIVE PLAN  
AND  
INCENTIVE COMPENSATION PLAN (for NON-SECTION 162(m) OFFICERS)**

**As amended and restated effective January 1, 2009**

**SECTION I  
PURPOSE**

Northrop Grumman has an annual incentive program to promote the success of the Company and render its operations profitable to the maximum extent by providing incentives to key employees. Participating employees have varying degrees of impact on the overall success and performance of the Company. To facilitate the appropriate incentive level for each Participant, Northrop Grumman utilizes two incentive plans that use common financial and business performance criteria:

- The Incentive Compensation Plan (ICP)
- The Annual Incentive Plan (AIP)

**SECTION II  
DEFINITIONS**

1. Company—Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.
2. Code—The Internal Revenue Code of 1986, as amended from time to time.
3. Committee—The Compensation and Management Development Committee of the Board of Directors of the Company.
4. Incentive Compensation—Awards payable under these plans.
5. Participant—An employee of the Company granted or eligible to receive Incentive Compensation award under one of these Plans.
6. Performance Criteria—The performance criteria is a weighted combination of various financial and non-financial factors approved by the Committee for the Performance Year.
7. Performance Year—The year with respect to which an award of Incentive Compensation is calculated and paid.
8. Plans—Collectively, the Incentive Compensation Plan (ICP); and/or the Annual Incentive Plan (AIP).
9. Plan Year—The fiscal year of Northrop Grumman Corporation.
10. Section 162(m) Officer— An employee who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the 2002 Incentive Compensation Plan for any Performance Year.

**SECTION III  
PARTICIPATION**

Employees may be eligible for incentive compensation under one of the Northrop Grumman incentive plans as described below.

1. Incentive Compensation Plan (ICP):

- a. Employees eligible to receive incentive compensation under the ICP are elected corporate officers of the rank of vice president and above and the presidents of those consolidated subsidiaries that the committee determines to be significant in the overall corporate operations that are not section 162(m) officers for the performance year. If an executive receives or is eligible to receive an incentive compensation award under the 2002 Incentive Compensation Plan for 162(m) officers, then the executive will not be eligible and shall not receive an incentive compensation award under the ICP.
- b. Directors, as such, shall not participate in the ICP, but the fact that an elected corporate officer or subsidiary president is also a director of the Company shall not prevent participation.

2. Annual Incentive Plan (AIP):

- a. Employees eligible to receive incentive compensation awards under the AIP are appointed vice presidents, senior management, middle management and individual key contributors (employees normally in a position that customarily perform quasi-management or team leadership duties). In addition, employees may be eligible to participate in the AIP if they have specific individual goals that directly contribute to the attainment of their respective business unit's operating goals or if employees are considered "high performing" and are in a position to make measurable and significant contributions to the success of the Company.
- b. At the beginning of, or prior to, a performance year, the Company's CEO approves the number of participants eligible for participation in the AIP. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance, and their potential impact on achievement of business unit and the Company goals.
- c. Participation in the AIP during any performance year does not imply nor guarantee participation in the AIP in future years.

3. Non-Duplication of Awards

- a. A participant may not receive an incentive compensation award under more than one of the above plans for the performance year. The only exception to this is in the event that an individual is a participant in a particular plan for a portion of the performance year and then is selected to participate in one of the other plans for the remainder of that performance year. In this event, an individual may receive pro-rated awards based on the time that he/she participated in each plan.

b. A participant will not be eligible to receive any incentive compensation award from either of these plans if the employee is a participant in the Company's 2002 Incentive Compensation Plan for 162(m) Officers.

4. Death, Disability, or Retirement

A participant may be eligible to receive a pro-rated incentive compensation award in the event of the employee's death, disability, or retirement. In the case of a deceased participant, such incentive compensation award will be paid to the participant's estate.

5. Employment Status

Except as provided in Section III 4 (see above), in order to be eligible to receive a payment from these plans, a participant must be an active employee of the Company as of December 31 of the plan year, unless an exception is approved in writing by the Company's chief human resources and administrative officer.

**SECTION IV  
GOAL SETTING AND PERFORMANCE CRITERIA**

Goal setting and performance planning are essential elements of plan administration. This requires establishing performance criteria, such as annual goals, goal weights, and performance measures. The Committee approves the annual business and financial goals for the Company, as described below, in writing within the first 90 days of a Performance Year, at a time when it is substantially uncertain whether the Participant will earn any amount of Incentive Compensation.

1. Corporation Goals

For each performance year, until otherwise determined by the Committee, financial and non-financial objectives will be established by the Committee in its sole discretion.

2. Financial Measures

- a. The CEO's recommended goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion. Measures may include, but are not limited to: cash management, cash flow, return on investment, debt reduction, revenue growth, net earnings, and return on equity.
- b. The Committee approves a performance threshold, a target level and a maximum performance level for each of the financial measures for the performance year.

3. Supplemental Goals

Supplemental goals may be either qualitative or quantitative such as, but not limited to: customer satisfaction, contract acquisition, delivery schedule, cycle-time improvement, productivity, quality, workforce diversity, and environmental management. The CEO recommends the supplemental goals based on sector goals contained in Annual Operating Plans and corporate office goals established prior to the beginning of each year. Supplemental goals have stated milestones and weights. The CEO's recommended supplemental goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion.

#### 4. Individual Goals

Each year participants develop individual goals that support achievement of the Company's business plan and the specific goals established by the Committee in the three aforementioned corporation goals. Individual goals are prepared, approved and documented. The employee's manager reviews these goals with each participant to ensure they are aggressive, coordinated and focused on attainment of Company business objectives.

### **SECTION V PERFORMANCE DETERMINATION**

At the end of the performance year the CEO evaluates the performance of each of the operating units and that of the overall Company against the financial and business goals established at the beginning of the performance year and submits his assessment to the Committee.

The CEO's final evaluation of performance (the "unit performance factor" or "UPF") is stated numerically and is a performance multiplier for individual incentive targets. The UPF will vary from 0.0 to a maximum as approved by the Committee.

The Committee, in its sole discretion, after taking into account its appraisal of the overall performance of the Company in the attainment of such predetermined financial and non-financial objectives, may either increase or decrease the company UPF for these plans.

### **SECTION VI INCENTIVE COMPENSATION APPROPRIATIONS**

1. The amount appropriated for the plans for a performance year is based on the CEO's determination of the UPF (as approved or modified by the Committee) and applied to the individual incentive targets of participants. These performance-adjusted targets are aggregated into the "Appropriated Incentive Compensation" for the performance year.
2. In no event shall incentive compensation payable to participants for a performance year exceed the appropriated incentive compensation for the plans as approved by the Committee.
3. Any appropriated incentive compensation for a performance year, which is not actually distributed to the participants as awards for such year, cannot be transferred to the following performance year.

### **SECTION VII INCENTIVE COMPENSATION AWARDS**

1. Individual Award Factors
  - a. Target award percentage—is established annually and is a percentage of annual aggregate salary that reflects the varying impact of participant's positions on business results. Generally vice presidents will have higher target award percentages than senior middle managers and so forth.
  - b. Individual performance—prior to the submission of recommended incentive compensation awards, each participant will be evaluated by his management in

relation to the participant's achievement of predetermined individual goals and his/her relative contribution during the performance year compared to other participants to the success or profit of the Company. This assessment of performance (the "individual performance factor" or "IPF") is stated numerically and is a performance multiplier for individual incentive targets. The IPF may range from 0 to 1.5.

- c. Both the IPF and the UPF are multipliers for the individual participant's target award percentage to determine that participant's incentive compensation award.

2. ICP Awards:

- a. The Committee shall review the CEO's recommendations and make the final determination of each individual ICP participant's incentive compensation award for the performance year.

3. AIP Awards:

- a. Prior to the payment of any incentive compensation awards for a performance year, the CEO, or his delegate, may in his sole discretion, adjust or reduce to zero recommended amounts of incentive compensation awards to all or any of the participants.
- b. The CEO or his delegate shall determine the amount of any adjustment in a participant's incentive compensation award on the basis of such factors as he deems relevant, and shall not be required to establish any allocation or weighting component with respect to the factors he considers.

**SECTION VIII  
ADMINISTRATION OF THE PLANS**

1. ICP: The Committee shall be responsible for the administration of the Plan. The Committee shall:

- a. Interpret the ICP, make any rules and regulations relating to that plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the ICP, after such investigation or hearing as the Committee may deem appropriate.
- b. As soon as feasible after the close of each performance year and prior to the payment of any incentive compensation for such performance year, review the performance of each participant and determine the amount of each participant's individual incentive compensation award, if any, with respect to that performance year.
- c. Have sole discretion in determining incentive compensation awards under the ICP, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the CEO and others whom it may designate.
- d. Any decisions made by the Committee under the provisions of this SECTION VIII, as well as any interpretations of the ICP by the Committee, shall be conclusive and binding on all parties concerned.

2. AIP: The CEO shall be responsible for the administration of this plan. The CEO shall:
  - a. Interpret the AIP, make any rules and regulations relating to the plan, and determine factual questions arising in connection with the AIP.
  - b. As soon as feasible after the close of each performance year and prior to the payment of any incentive compensation for such performance year, review the recommended awards of selected participants, as determined by the CEO, to determine if the award is appropriate with respect to that performance year, making any adjustments as he deems necessary and approving each such award.
  - c. Review and approve the total incentive compensation award expenditure of each sector and the Company overall.
  - d. Any decisions made by the CEO under the provisions of this Section VIII, as well as any interpretation of the AIP by the CEO, shall be conclusive and binding on all parties concerned.

**SECTION IX  
METHOD OF PAYMENT OF INCENTIVE  
COMPENSATION TO INDIVIDUALS**

1. ICP Payments

- a. The amount of incentive compensation award determined for each participant with respect to a given performance year shall be paid in cash or in common stock of the Company (“Northrop Grumman common stock”) or partly in cash and partly in Northrop Grumman common stock, as the Committee may determine. Subject to any applicable deferred compensation election to the contrary, payment of the Incentive Compensation award with respect to a given Performance Year shall be made in a lump sum payment between February 15 and March 15 of the year following such Performance Year.
- b. The Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the ICP.
- c. In making awards of Northrop Grumman common stock, the Committee shall first determine all incentive compensation awards in terms of dollars. The total dollar amount of all incentive compensation awards for a particular year shall not exceed the appropriated incentive compensation for that performance year under the ICP. After fixing the total amount of each Participant’s incentive compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman common stock, the dollar amount of the incentive compensation award so to be paid shall be converted into shares of Northrop Grumman common stock by using the fair market value of such stock on the date of the award. “Fair market value” shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.

- d. If an incentive compensation award is paid in Northrop Grumman common stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, re-capitalization or other relevant changes in capitalization effective after the date of award and prior to the date as of which the participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the participant as the record owner of the shares.
- e. Northrop Grumman common stock issued in payment of incentive compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.
- f. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to the Northrop Grumman Deferred Compensation Plan, the Northrop Grumman Savings Excess Plan, or any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement.
- g. The Company shall have the right to deduct from all payments under the ICP any federal, state, or local taxes required by law to be withheld with respect to such payments.
- h. No participant or any other party claiming an interest in amounts earned under the ICP shall have any interests whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the ICP, such right shall be equivalent to that of an unsecured general creditor of the Company. Awards payable under the plan shall be payable in shares or from the general assets of Northrop Grumman, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards.

## 2. AIP Payments

- a. The amount of incentive compensation award determined for each participant with respect to a given performance year shall be paid in cash between February 15 and March 15 of the year following that performance year.
- b. The Company shall have the right to deduct from all payments under this plan any federal, state, or local taxes required by law to be withheld with respect to such payments.
- c. No participant or any other party claiming an interest in amounts earned under the AIP shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the plan, such right shall be equivalent to that of an unsecured general creditor of the Company. Awards payable under the AIP shall be payable in shares or from the general assets of Northrop Grumman, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards.

**SECTION X  
AMENDMENT OR TERMINATION OF PLANS**

The Committee shall have the right to terminate or amend these plans at any time and to discontinue further appropriations to the plans.

Without limiting the generality of the preceding paragraph, the Committee reserves the right to adjust performance measures, the applicable performance goals and performance results with respect to either or both of the plans to the extent the Committee determines such adjustment is reasonably necessary or advisable to preserve the intended incentives and benefits under the plans to reflect (1) any change in capitalization, any corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation, (2) any change in accounting policies or practices, or (3) the effects of any special charges to earnings, or (4) any other similar special circumstances.

**SECTION XI  
EFFECTIVE DATE**

These plans were first effective for performance years commencing with 2006, and were amended and restated effective for performance years commencing with and following 2008 and shall stay in effect until amended, modified or terminated by the Committee. The provisions of these plans, together with those of the 2002 Incentive Compensation Plan for Section 162(m) Officers, shall supersede and replace those of prior plan documents.

**SECTION XII  
RECOUPMENT**

Any payment of an incentive compensation award is subject to recoupment pursuant to the Company's Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, and the participant shall promptly make any reimbursement requested by the Board of Directors of the Company or the Committee pursuant to such policy with respect to any incentive compensation award payments. Further, the participant agrees, by accepting an incentive compensation award, that the Company and its affiliates may deduct from any amounts it may owe the participant from time to time (such as wages or other compensation) to the extent of any amounts the participant is required to reimburse the Company pursuant to such policy with respect to the award.

**SECTION XIII  
MISCELLANEOUS**

1. Participation in any plan shall not constitute an agreement of the participant to remain in the employ of and to render his/her services to the Company, or of the Company to continue to employ such participant, and the Company may terminate the employment of a participant at any time with or without cause.
2. In the event any provision of the plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the plans, and the plans shall be construed and enforced as if the illegal or invalid provision had not been included.



3. All costs of implementing and administering the plans shall be borne by the Company.
4. All obligations of the Company under the plans shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.
5. The plans and any agreements hereunder, shall be governed by and construed in accordance with the laws of the state of Delaware.
6. The rights of a participant or any other person to any payment or other benefits under either of the plans may not be assigned, transferred, pledged, or encumbered except by will or the laws of decent or distribution.

Neither of the plans constitutes a contract. Neither of the plans confers upon any person any right to receive a bonus or any other payment or benefit. There is no commitment or obligation on the part of Northrop Grumman (or any affiliate) to continue any bonus plan (similar to the plans or otherwise) in any particular year.

**NORTHROP GRUMMAN CORPORATION**  
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<i>\$ in millions</i>	Year Ended December 31,					Three Months Ended March 31,	
	2008 <sup>(1)</sup>	2007	2006	2005	2004	2009	2008
<b>Earnings:</b>							
(Loss) earnings from continuing operations before income taxes	\$(368)	\$2,698	\$2,316	\$2,092	\$1,596	\$590	\$409
<b>Fixed Charges:</b>							
Interest expense, including amortization of debt premium	295	336	347	388	431	73	77
Portion of rental expenses on operating leases deemed to be representative of the interest factor:	195	195	183	170	151	47	46
Earnings from continuing operations before income taxes and fixed charges	122	3,229	2,846	2,650	2,178	710	532
<b>Fixed Charges:</b>	490	531	530	558	582	120	123
Ratio of earnings to fixed charges <sup>(1)</sup>	—	6.1	5.4	4.7	3.7	5.9	4.3

(1) For the year ended December 31, 2008, the company's earnings were insufficient to cover fixed charges by \$368 million. This loss was entirely due to the non-cash goodwill impairment charge of \$3.1 billion recorded during the fourth quarter at Shipbuilding and Aerospace Systems.

**LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

April 21, 2009

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, California

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 March 31, 2009 and 2008, as indicated in our report dated April 21, 2009; 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 March 31, 2009, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement No. 333-152596 on Form S-3; and Registration Statement Nos. 333-40862-01 and 333-83672 on Form S-4.

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  
Los Angeles, California

**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, Ronald D. Sugar, 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: April 22, 2009

/s/ **Ronald D. Sugar**  
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Ronald D. Sugar  
Chairman and Chief Executive Officer

**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: April 22, 2009

/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 March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald D. Sugar, Chairman and Chief Executive 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: April 22, 2009

*/s/* **Ronald D. Sugar**  
\_\_\_\_\_  
Ronald D. Sugar  
Chairman and Chief Executive 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 March 31, 2009, 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: April 22, 2009

**/s/ James F. Palmer**

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James F. Palmer  
Corporate Vice President and Chief Financial Officer