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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

o 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	**95-4840775**
(State or other jurisdiction of incorporation or organization)	(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 o

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 o

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

Large accelerated filer ☒	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o (Do not check if a 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 o 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 26, 2010, 301,197,146 shares of common stock were outstanding.

NORTHROP GRUMMAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

$ in millions, except per share amounts	Three Months Ended March 31 **2010**	2009
Sales and Service Revenues		
Product sales	**$5,526**	$4,570
Service revenues	**3,084**	3,365
Total sales and service revenues	**8,610**	7,935
Cost of Sales and Service Revenues		
Cost of product sales	**4,296**	3,635
Cost of service revenues	**2,781**	2,963
General and administrative expenses	**768**	718
Operating income	**765**	619
Other (expense) income		
Interest expense	**(80)**	(73)
Other, net	**7**	8
Earnings from continuing operations before income taxes	**692**	554
Federal and foreign income taxes	**230**	188
Earnings from continuing operations	**462**	366
Earnings from discontinued operations, net of tax	**7**	23
Net earnings	**$ 469**	$ 389
Basic Earnings Per Share		
Continuing operations	**$ 1.53**	$ 1.12
Discontinued operations	**0.02**	.07
Basic earnings per share	**$ 1.55**	$ 1.19
Weighted-average common shares outstanding, in millions	**302.5**	326.9
Diluted Earnings Per Share		
Continuing operations	**$ 1.51**	$ 1.10
Discontinued operations	**.02**	.07
Diluted earnings per share	**$ 1.53**	$ 1.17
Weighted-average diluted shares outstanding, in millions	**306.1**	332.1
Net earnings (from above)	**$ 469**	$ 389
Other comprehensive income		
Change in cumulative translation adjustment	**(28)**	(14)
Change in unrealized gain on marketable securities and cash flow hedges, net of tax		7
Change in unamortized benefit plan costs, net of tax	**40**	53
Other comprehensive income, net of tax	**12**	46
Comprehensive income	**$ 481**	$ 435

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

NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

$ in millions	**March 31, 2010**	December 31, 2009
Assets		
Cash and cash equivalents	**$ 1,961**	$ 3,275
Accounts receivable, net of progress payments	**4,197**	3,394
Inventoried costs, net of progress payments	**1,289**	1,170
Deferred tax assets	**627**	524
Prepaid expenses and other current assets	**295**	272
Total current assets	**8,369**	8,635
Property, plant, and equipment, net of accumulated depreciation of $4,340 in 2010 and $4,216 in 2009	**4,797**	4,868
Goodwill	**13,517**	13,517
Other purchased intangibles, net of accumulated amortization of $1,898 in 2010 and $1,871 in 2009	**846**	873
Pension and post-retirement plan assets	**304**	300
Long-term deferred tax assets	**883**	1,010
Miscellaneous other assets	**1,046**	1,049
Total assets	**$29,762**	$30,252
Liabilities		
Notes payable to banks	**$ 14**	$ 12
Current portion of long-term debt	**761**	91
Trade accounts payable	**1,642**	1,921
Accrued employees' compensation	**1,134**	1,281
Advance payments and billings in excess of costs incurred	**1,909**	1,954
Other current liabilities	**2,028**	1,726
Total current liabilities	**7,488**	6,985
Long-term debt, net of current portion	**3,440**	4,191
Pension and post-retirement plan liabilities	**4,723**	4,874
Other long-term liabilities	**1,471**	1,515
Total liabilities	**17,122**	17,565
Commitments and Contingencies (Note 10)		
Shareholders' Equity		
Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2010 – 300,814,235; 2009 – 306,865,201	**301**	307
Paid-in capital	**8,264**	8,657
Retained earnings	**7,077**	6,737
Accumulated other comprehensive loss	**(3,002)**	(3,014)
Total shareholders' equity	**12,640**	12,687
Total liabilities and shareholders' equity	**$29,762**	$30,252

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

NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

$ in millions	Three Months Ended March 31 2010	2009
Operating Activities		
Sources of Cash – Continuing Operations		
Cash received from customers		
Progress payments	**$ 2,379**	$ 803
Collections on billings	**5,339**	6,326
Other cash receipts	**1**	51
Total sources of cash – continuing operations	**7,719**	7,180
Uses of Cash – Continuing Operations		
Cash paid to suppliers and employees	**(8,003)**	(7,203)
Interest paid, net of interest received	**(126)**	(98)
Income taxes paid, net of refunds received	**(111)**	(73)
Excess tax benefits from stock-based compensation	**(5)**	
Other cash payments	**(5)**	(22)
Total uses of cash – continuing operations	**(8,250)**	(7,396)
Cash used in continuing operations	**(531)**	(216)
Cash provided by discontinued operations		44
Net cash used in operating activities	**(531)**	(172)
Investing Activities		
Additions to property, plant, and equipment	**(135)**	(162)
Payments for outsourcing contract costs and related software costs	**(3)**	(18)
Other investing activities, net	**3**	4
Net cash used in investing activities	**(135)**	(176)
Financing Activities		
Net borrowings (payments) under lines of credit	**2**	(1)
Principal payments of long-term debt	**(89)**	
Proceeds from exercises of stock options and issuances of common stock	**70**	8
Dividends paid	**(129)**	(131)
Excess tax benefits from stock-based compensation	**5**	
Common stock repurchases	**(507)**	(150)
Net cash used in financing activities	**(648)**	(274)
Decrease in cash and cash equivalents	**(1,314)**	(622)
Cash and cash equivalents, beginning of period	**3,275**	1,504
Cash and cash equivalents, end of period	**$ 1,961**	$ 882

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$ in millions	Three Months Ended March 31 2010	2009
Reconciliation of Net Earnings to Net Cash Used in Operating Activities		
Net earnings	**$ 469**	$ 389
Net earnings from discontinued operations		(23)
Adjustments to reconcile to net cash used in operating activities		
Depreciation	**140**	136
Amortization of assets	**39**	38
Stock-based compensation	**38**	35
Excess tax benefits from stock-based compensation	**(5)**	
Pre-tax gain on sale of business	**(11)**	
(Increase) decrease in		
Accounts receivable	**(2,706)**	(1,748)
Inventoried costs	**13**	(355)
Prepaid expenses and other current assets	**(6)**	(31)
Increase (decrease) in		
Progress payments	**1,779**	1,431
Accounts payable and accruals	**(526)**	(265)
Deferred income taxes	**(1)**	46
Income taxes payable	**163**	131
Retiree benefits	**107**	(5)
Other non-cash transactions, net	**(24)**	5
Cash used in continuing operations	**(531)**	(216)
Cash provided by discontinued operations		44
Net cash used in operating activities	**$ (531)**	$ (172)
Non-Cash Investing and Financing Activities		
Capital expenditures accrued in accounts payable	**$ 38**	$ 29

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)

	Three Months Ended March 31	
$ in millions, except per share	**2010**	2009
Common Stock		
At beginning of period	**$ 307**	$ 327
Common stock repurchased	**(8)**	(4)
Employee stock awards and options	**2**	2
At end of period	**301**	325
Paid-in Capital		
At beginning of period	**8,657**	9,645
Common stock repurchased	**(477)**	(161)
Employee stock awards and options	**84**	(2)
At end of period	**8,264**	9,482
Retained Earnings		
At beginning of period	**6,737**	5,590
Net earnings	**469**	389
Dividends declared	**(129)**	(133)
At end of period	**7,077**	5,846
Accumulated Other Comprehensive Loss		
At beginning of period	**(3,014)**	(3,642)
Other comprehensive income, net of tax	**12**	46
At end of period	**(3,002)**	(3,596)
Total shareholders' equity	**$12,640**	$12,057
Cash dividends declared per share	**$ .43**	$ .40

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. 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 (SEC). 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 2009 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 (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:

$ in millions	**March 31, 2010**	December 31, 2009
Cumulative translation adjustment	**$ 13**	$ 41
Net unrealized gain on marketable securities and cash flow hedges, net of tax expense of $3 as of March 31, 2010 and December 31, 2009	**4**	4
Unamortized benefit plan costs, net of tax benefit of $1,959 as of March 31, 2010, and $1,984 as of December 31, 2009	**(3,019)**	(3,059)
Total accumulated other comprehensive loss	**$(3,002)**	$(3,014)

The changes in the unamortized benefit plan costs, net of tax, were $40 million and $53 million, respectively for the three months ended March 31, 2010, and 2009 and are included in other comprehensive income in the condensed consolidated statements of operations. Unamortized benefit plan costs consist primarily of net after-tax actuarial loss amounts totaling $3,041 million and $3,082 million as of March 31, 2010, and December 31, 2009, respectively. Net actuarial gains or losses principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense when they exceed ten percent of the greater of the plan assets or projected benefit obligations by benefit plan. The excess of gains or losses over the ten percent threshold are subject to amortization over the average future service period of employees of approximately ten years.

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 2010 (see Note 6).

2. ACCOUNTING STANDARDS UPDATES

The accounting requirements of the update made to *"Consolidation – Consolidation of Variable Interest Entities"* which took effect on January 1, 2010, were adopted but had no significant impact on the company's consolidated financial position or results of operations.

Accounting Standards Updates Not Yet Effective
Accounting Standards Updates not effective until after March 31, 2010, 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

Investments in Marketable Securities – The company holds a portfolio of marketable securities, primarily consisting of equity securities that are classified as either trading or available-for-sale and can be liquidated without restriction. These assets are recorded at fair value, substantially all of which are based upon quoted market prices for identical instruments in active markets and thus considered Level 1 inputs. As of March 31, 2010, and December 31, 2009, respectively, there were marketable equity securities of $62 million and $58 million included in prepaid expenses and other current assets and $237 million and $233 million of marketable equity securities included in miscellaneous other assets.

Derivative Financial Instruments and Hedging Activities – The company utilizes derivative financial instruments in order to manage exposure to interest rate risk and foreign currency exchange rate risk. The company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. Interest rate swap agreements utilize floating interest rates as an offset to the fixed-rate characteristics of certain long-term debt instruments. Foreign currency forward contracts are used to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value, substantially all of which are based on active or inactive markets for identical or similar instruments or model-derived valuations whose inputs are observable and thus considered Level 2 inputs. 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 market approach was used to determine fair value using inputs including, but not limited to, the London Interbank Offered Rate (LIBOR) swap rates. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and periodic settlements of the underlying transactions.

For derivative financial instruments not designated as hedging instruments as well as 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. Unrealized gains or losses on cash flow hedges are reclassified from other comprehensive income to earnings from continuing operations upon the recognition of the underlying transactions.

As of March 31, 2010, an interest rate swap with a notional value of $200 million, and foreign currency purchase and sale forward contract agreements with notional values of $68 million and $131 million, respectively, were designated for hedge accounting. The remaining notional values outstanding at March 31, 2010, under foreign currency purchase and sale forward contracts of $14 million and $79 million, respectively, were not designated for hedge accounting.

As of December 31, 2009, an interest rate swap with a notional value of $200 million, and foreign currency purchase and sale forward contract agreements with notional values of $77 million and $151 million, respectively, were designated for hedge accounting. The remaining notional values outstanding at December 31, 2009, under foreign currency purchase and sale forward contracts of $19 million and $74 million, respectively, were not designated for hedge accounting.

The derivative fair values and related unrealized gains and losses at March 31, 2010, and December 31, 2009, were not material.

There were no material transfers of financial instruments between the three levels of fair value hierarchy during the three months ended March 31, 2010.

The carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of these items.

Carrying amounts and the related estimated fair values of the company's financial instruments not recorded at fair value in the financial statements are as follows:

	March 31, 2010		December 31, 2009	
$ in millions	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash surrender value of life insurance policies	**$ 246**	**$ 246**	$ 242	$ 242
Long-term debt	**(4,201)**	**(4,753)**	(4,282)	(4,825)

Cash Surrender Value of Life Insurance Policies – The company maintains whole life insurance policies on a group of executives which are recorded at their cash surrender value as determined by the insurance carrier. Additionally, the company has split-dollar life insurance policies on former officers and executives from acquired businesses which are recorded at the lesser of their cash surrender value or premiums paid. The policies are utilized as a partial funding source for deferred compensation and other non-qualified employee retirement plans. Amounts associated with these policies are recorded in miscellaneous other assets in the condensed consolidated statements of financial position.

Long-Term Debt – The fair value of the long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

4. DIVIDENDS ON COMMON STOCK

Dividends on Common Stock – In May 2009, the company's board of directors approved an increase to the quarterly common stock dividend, from $.40 per share to $.43 per share, for shareholders of record as of June 1, 2009.

5. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions

In April 2009, the company acquired Sonoma Photonics, Inc., as well as assets from Swift Engineering's Killer Bee Unmanned Air Systems product line for an aggregate amount of approximately $33 million in cash. The operating results of these businesses are reported in the Aerospace Systems segment from the date of acquisition. The assets, liabilities, and results of operations of these businesses were not material to the company's consolidated financial position or results of operations, and thus pro-forma financial information is not presented.

Dispositions

In December 2009, the company sold its Advisory Services Division (ASD) for $1.65 billion in cash to an investor group led by General Atlantic, LLC, and affiliates of Kohlberg Kravis Roberts & Co. L.P., and recognized a gain of $15 million, net of taxes. During the three months ended March 31, 2010, an additional $7 million gain, net of taxes, was recorded to reflect management's preliminary estimate of the purchase price adjustment called for under the sale agreement. ASD was a business unit comprised of the assets and liabilities of TASC, Inc., its wholly-owned subsidiary TASC Services Corporation, and certain contracts carved out from other Northrop Grumman businesses also in the Information Systems segment that provide systems engineering technical assistance (SETA) and other analysis and advisory services. Sales and operating income for this business for the three months ended March 31, 2009, were approximately $385 million and $36 million, respectively. The operating results of this business unit are reported as discontinued operations in the condensed consolidated financial statements for all periods presented.

6. SEGMENT INFORMATION

The company is aligned into five reportable segments: Aerospace Systems, Electronic Systems, Information Systems, Shipbuilding, and Technical Services.

In January 2010, the company transferred its internal information technology services unit from the Information Systems segment to the company's shared services group. The intersegment sales and operating income for this business that were previously recognized in the Information Systems segment are immaterial and have been eliminated for all periods presented.

The following table presents segment sales and service revenues for the three months ended March 31, 2010, and 2009:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Sales and service revenues		
Aerospace Systems	**$2,696**	$2,456
Electronic Systems	**1,882**	1,788
Information Systems	**2,064**	2,093
Shipbuilding	**1,721**	1,375
Technical Services	**763**	632
Intersegment eliminations	**(516)**	(409)
Total sales and service revenues	**$8,610**	$7,935

The following table presents segment operating income reconciled to total operating income for the three months ended March 31, 2010, and 2009:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Operating income		
Aerospace Systems	**$296**	$258
Electronic Systems	**226**	229
Information Systems	**183**	186
Shipbuilding	**106**	84
Technical Services	**49**	37
Intersegment eliminations	**(50)**	(39)
Total segment operating income	**810**	755
Non-segment factors affecting operating income		
Unallocated corporate expenses	**(33)**	(53)
Net pension adjustment	**(8)**	(76)
Royalty income adjustment	**(4)**	(7)
Total operating income	**$765**	$619

Unallocated Corporate Expenses – Unallocated corporate expenses generally 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 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. The dilutive effect of these securities totaled 3.6 million shares and 5.2 million shares for the three months ended March 31, 2010, and 2009, respectively. The weighted-average diluted shares outstanding for the three months ended March 31, 2010, and 2009, exclude stock options to purchase approximately 2.7 million and 13.4 million shares, respectively, because such options have exercise prices in excess of the average market price of the company’s common stock during the period.

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2009:

Repurchase Program Authorization Date	Amount Authorized (in millions)	Average Price Per Share(2)	Total Shares Retired (in millions)	Shares Repurchased (in millions) Three Months Ended March 31	
				2010	2009
December 19, 2007(1)	$3,600	$59.94	52.7	**8.3**	4.2

(1) On December 19, 2007, the company's board of directors authorized a share repurchase program of up to $2.5 billion of the company's common stock. On November 5, 2009, the board of directors authorized an additional $1.1 billion to the December 19, 2007 authorization.

(2) Includes commissions paid and calculated as the average price per share since the repurchase program authorization date.

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 the end of the first quarter 2010, the company has $439 million remaining under this authorization for share repurchases.

8. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill at March 31, 2010, and December 31, 2009, were as follows:

$ in millions	Aerospace Systems	Electronic Systems	Information Systems	Shipbuilding	Technical Services	**Total**
Goodwill	$3,801	$2,402	$5,248	$1,141	$925	**$13,517**

Purchased Intangible Assets

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

	March 31, 2010			December 31, 2009		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$2,644**	**$(1,819)**	**$825**	$2,644	$(1,793)	$851
Other purchased intangibles	**100**	**(79)**	**21**	100	(78)	22
Total	**$2,744**	**$(1,898)**	**$846**	$2,744	$(1,871)	$873

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 30 years. Aggregate amortization expense for the three months ended March 31, 2010, and 2009, was $27 million and $26 million, respectively.

The table below shows expected amortization for purchased intangibles for the remainder of 2010 and for the next five years:

$ in millions

Year ending December 31	
2010 (April 1 – December 31)	$65
2011	57
2012	56
2013	48
2014	36
2015	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.

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. The Coast Guard advised Integrated Coast Guard Systems, LLC (ICGS), which was formed by the contractors to perform the Deepwater Program, that it was seeking $96.1 million from ICGS as a result of the revocation of acceptance. 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 2008, the Coast Guard advised ICGS that the Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96.1 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against ICGS, Lockheed Martin Corporation and the company, relating to the 123-foot conversion effort. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to the company, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. The District Court denied the motion with respect to those claims relating to hull, mechanical and engineering work. The matter is set for trial on November 1, 2010.

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.

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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.

The company is one of several defendants in litigation brought by the Orange County Water District in Orange County Superior Court in California on December 17, 2004, for alleged contribution to volatile organic chemical contamination of the County's shallow groundwater. The lawsuit includes counts against the defendants for violation of the Orange County Water District Act, the California Super Fund Act, negligence, nuisance, trespass and declaratory relief. Among other things, the lawsuit seeks unspecified damages for the cost of remediation, payment of attorney fees and costs, and punitive damages. The June 2009 trial date was vacated and a status conference has been set for April 29, 2010.

On March 27, 2007, the U.S. District Court for the Central District of California consolidated two Employee Retirement Income Security Act (ERISA) lawsuits that had been separately filed on September 28, 2006 and January 3, 2007, into In Re Northrop Grumman Corporation ERISA Litigation. The plaintiffs seek to have the lawsuits certified as class actions. On August 6, 2007, the District 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 September 8, 2009, the Ninth Circuit vacated the Order denying class certification and remanded the issue to the District Court for further consideration. As required by the Ninth Circuit's Order, the case was also reassigned to a different judge.

On June 22, 2007, a putative class action was filed against the Northrop Grumman Pension Plan and the Northrop Grumman Retirement Plan B and their corresponding administrative committees, styled as *Skinner et al. v. Northrop Grumman Pension Plan, etc., et al.*, in the U.S. District Court for the Central District of California. The putative class representatives alleged violations of ERISA and breaches of fiduciary duty concerning a 2003 modification to the Northrop Grumman Retirement Plan B. The modification relates to the employer funded portion of the pension benefit available during a five-year transition period that ended on June 30, 2008. The plaintiffs dismissed the Northrop Grumman Pension Plan, and in 2008 the District Court granted summary judgment in favor of all remaining defendants on all claims. The plaintiffs appealed, and in May 2009, the U.S. Court of Appeals for the Ninth Circuit reversed the decision of the District Court and remanded the matter back to the District Court for further proceedings, finding that there was ambiguity in a 1998 summary plan description related to the employer-funded component of the pension benefit. The plaintiffs filed a motion to certify a class. The parties also filed cross-motions for summary judgment. On January 26, 2010, the District Court granted summary judgment in favor of the Plan and denied plaintiffs' motion for summary judgment. The District Court also denied plaintiffs' motion for class certification and struck the trial date of March 23, 2010 as unnecessary given the Court's grant of summary judgment for the Plan. Plaintiffs appealed the District Court's order to the Ninth Circuit.

Other Matters – 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. FM Global appealed the District Court's order, and 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 Ninth Circuit 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. On April 2, 2009, the Ninth Circuit denied the company's Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, the company filed a motion seeking leave of court to file a complaint adding AON Risk Services, Inc. of Southern California as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. Both motions have been fully briefed and argued. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of this matter.

During 2008, the company received notification from Munich-American Risk Partners (Munich Re), the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, that it will pursue arbitration proceedings against the company related to approximately $19 million owed by Munich Re to Northrop Grumman Risk Management Inc. (NGRMI), a wholly-owned subsidiary of the company, for certain losses related to Hurricane Katrina. The company was subsequently notified that Munich Re also will seek reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The company believes that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date.

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 settlements in the process of negotiation, contract changes, 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, 2010, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

Guarantees of Subsidiary Performance Obligations – From time to time in the ordinary course of business, the company guarantees performance obligations of its subsidiaries under certain contracts. In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (Business Arrangements) to support the company's products and services in domestic and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements, or to the extent of such subsidiary's obligations under the applicable contract. In some cases, however, the company may be required to guarantee performance by the Business Arrangements and, in such cases, the company generally obtains cross-indemnification from the other members of the Business Arrangements. At March 31, 2010, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

Environmental Matters – 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. These accruals do not include any litigation costs related to environmental matters, nor do they include amounts recorded as asset retirement obligations. To assess the potential impact on the company's consolidated financial statements, management estimates the range of 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, 2010, the range of reasonably possible future costs for environmental remediation sites is $239 million to $504 million, of which $121 million is accrued in other current liabilities and $159 million is accrued in other long-term liabilities. A portion of the environmental remediation costs are expected to be recoverable through overhead charges on government contracts and, accordingly, such amounts are deferred in inventoried costs (current portion) and miscellaneous other assets (non-current portion). 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, changes to the determination of legally responsible parties, 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. In addition, there are some potential remediation sites where the costs of remediation cannot be reasonably estimated. 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 – In 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. In 2009, the company received $25 million of insurance proceeds representing interim payments on the Hurricane Ike insurance claim. In the first quarter of 2010, the company received $17 million in final settlement of its claim, which was recorded as a business interruption gain in cost of product sales at the Shipbuilding segment during the current quarter.

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, FM Global and Munich Re.

The company has full entitlement to any insurance recoveries related to business interruption impacts on net profitability 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.

Shipbuilding Quality Issues – In conjunction with a second quarter 2009 review of design, engineering and production processes at Shipbuilding undertaken as a result of leaks discovered in the USS San Antonio's (LPD 17) lube oil system, the company became aware of quality issues relating to certain pipe welds on ships under production in the Gulf Coast as well as those that had previously been delivered. Since that discovery, the company has been working with its customer to determine the nature and extent of the pipe weld issue and its possible impact on related shipboard systems. This effort has resulted in the preparation of a technical analysis of the problem, additional inspections on the ships, a rework plan for ships previously delivered and in various stages of production, and modifications to the work plans for ships being placed into production, all of which has been done with the knowledge and support of the U.S. Navy. Shipbuilding responsible incremental costs associated with the anticipated resolution of these matters have been reflected in the financial performance analysis and contract booking rates beginning with the second quarter of 2009.

In the fourth quarter of 2009, certain bearing wear and debris were found in the lubrication system of the main propulsion diesel engines (MPDE) installed on LPD 21. Shipbuilding is participating with the U.S. Navy and other industry participants involved with the MPDEs in a review panel established by the U.S. Navy to examine the MPDE lubrication system's design, construction, operation and maintenance for the LPD 17 class of ships. The team is focusing on identification and understanding of the root causes of the MPDE diesel bearing wear and debris in the lubrication system and potential future impacts on maintenance costs. To date the review has identified several potential system improvements for increasing the system reliability. Certain changes are being implemented on ships under construction at this time and the U.S. Navy is implementing some changes on in-service ships in the class at the earliest opportunity.

The company and the U.S. Navy continue to work in partnership to investigate and identify any additional corrective actions to address quality issues associated with ships manufactured in the company's Gulf Coast shipyards and the company will implement appropriate corrective actions consistent with its contractual and legal obligations. The company does not believe that the ultimate resolution of the matters described above will have a material adverse effect upon its condensed consolidated financial position, results of operations or cash flows.

Co-Operative Agreements – In 2003, Shipbuilding executed an agreement with the state of Louisiana whereby Shipbuilding leases facility improvements and equipment from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Shipbuilding to the state. As of March 31, 2010, Shipbuilding has met all but one of the requirements in the agreement. Failure by Shipbuilding to meet the remaining commitment could result in reimbursement by Shipbuilding to Louisiana in accordance with the agreement.

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, 2010, there were $443 million of unused stand-by letters of credit that have not been drawn on, $152 million of issued bank guarantees, and $452 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 Shipbuilding's repayment of the principal and interest to the Trustee. The company also guaranteed payment of the principal and interest by the Trustee to the underlying bondholders.

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

U.S. Government Claims – From time to time, the U.S. Government advises the company of claims and penalties concerning certain potential disallowed costs. When such findings are presented, the company and the U.S. Government representatives engage in discussions to enable the company to evaluate the merits of these claims as well as to assess the amounts being claimed. The company does not believe, but can give no assurance, 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 and net of immaterial amounts of sublease rental income, for the three months ended March 31, 2010, and 2009, was $128 million and $140 million, respectively.

NORTHROP GRUMMAN CORPORATION

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:

	Three Months Ended March 31			
	Pension Benefits		Medical and Life Benefits	
$ in millions	**2010**	2009	**2010**	2009
Components of Net Periodic Benefit Cost				
Service cost	**$ 165**	$ 165	**$ 12**	$ 12
Interest cost	**349**	337	**39**	41
Expected return on plan assets	**(438)**	(389)	**(14)**	(12)
Amortization of:				
Prior service cost (credit)	**12**	12	**(15)**	(15)
Net loss from previous years	**61**	85	**7**	7
Net periodic benefit cost	**$ 149**	$ 210	**$ 29**	$ 33
Defined contribution plans cost	**$ 83**	$ 82		

Employer Contributions – For the three months ended March 31, 2010, contributions of $49 million and $20 million have been made to the company's pension plans and its medical and life benefit plans, respectively, including voluntary pension contributions totaling $30 million. In 2010, the company expects to contribute the required minimum funding level of approximately $57 million to its pension plans and approximately $171 million to its other post-retirement benefit plans and also expects to make additional voluntary pension contributions of approximately $330 million.

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 plan, non-represented employees hired after June 30, 2008, are eligible to participate in a defined contribution program in lieu of a defined benefit pension plan.

New Health Care Legislation – The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act became law during the quarter and these new laws will have an impact on the company's future costs for providing health care benefits for its employees when the laws begin to impact the company's health care costs in 2013 and beyond. The initial passage of the laws will eliminate the company's tax benefits under the Medicare prescription drug subsidies associated with the Medicare Prescription Drug, Improvement and Modernization Act of 2003 beginning in 2013, but these drug subsidies are not material to the consolidated financial statements. The company is in the process of assessing the extent to which the new laws will affect its future health care and related employee benefit plan costs.

12. STOCK COMPENSATION PLANS

At March 31, 2010, 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 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 expense for the three months ended March 31, 2010, and 2009, was $38 million and $35 million, respectively, of which $9 million and $5 million related to Stock Options and $29 million and $30 million, related to Stock Awards, respectively. Tax benefits recognized in the condensed consolidated statements of operations for stock-based compensation during the three months ended March 31, 2010, and 2009, were $15 million and $14 million, respectively. In addition, the company realized tax benefits of $6 million and $245 thousand from the exercise of Stock Options and $33 million and $47 million from the issuance of Stock Awards in the three months ended March 31, 2010 and 2009, respectively.

At March 31, 2010, there was $285 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which $32 million relates to Stock Options and $253 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, 2010, and 2009, were as follows:

Weighted Average Assumptions	**2010**	2009
Dividend yield	**2.9%**	3.3%
Volatility rate	**25%**	25%
Risk-free interest rate	**2.3%**	1.7%
Expected option life (years)	**6**	6

The company grants stock options almost exclusively to executives, and the expected term of six years was based on these employees' exercise behavior. In 2009, the company granted options to non-executives and assigned an expected term of five years for valuing these options. The company believes that this stratification of expected terms best represents future expected exercise behavior between the two employee groups.

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2010, and 2009, was $11 and $7, per share, respectively.

Stock Option activity for the three months ended March 31, 2010, 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, 2010	14,442	$53	3.8 years	$ 88
Granted	1,903	60		
Exercised	(1,393)	51		
Cancelled and forfeited	(2)	48		
Outstanding at March 31, 2010	**14,950**	**$54**	**4.3 years**	**$191**

	Shares Under Option (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($ in millions)
Vested and expected to vest in the future at March 31, 2010	14,724	$54	4.3 years	$188
Exercisable at March 31, 2010	10,764	$54	3.5 years	$143
Available for grant at March 31, 2010	7,048			

The total intrinsic value of options exercised during the three months ended March 31, 2010, and 2009, was $15 million and $618 thousand, respectively. Intrinsic value is measured as the excess of the fair market value at the date of exercise (for options exercised) or at March 31, 2010 (for outstanding options), over 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, generally three years. The fair value of stock awards is determined based on the closing market price of the company's common stock on the grant date or, for stock awards granted in 2010, based on a market driven valuation model. 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.

Stock award activity for the three months ended March 31, 2010 and 2009, is presented in the table below. Vested awards include stock awards fully vested during the year and net adjustments to reflect the final performance measure for issued shares.

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2010	3,658	$58	1.6 years
Granted	2,211	60	
Vested	(10)	74	
Forfeited	(71)	57	
Outstanding at March 31, 2010	**5,788**	**$59**	**1.9 years**
Available for grant at March 31, 2010	422		

	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	2,350	45	
Vested	(185)	66	
Forfeited	(61)	74	
Outstanding at March 31, 2009	5,380	$62	1.9 years

The company issued 1.3 million and 2.5 million shares to employees in settlement of prior year stock awards that were fully vested, which had total fair values at issuance of $76 million and $111 million and grant date fair values of $91 million and $161 million during the three months ended March 31, 2010, and 2009, respectively.

The differences between the fair values at issuance and the grant date fair values reflect the effects of the performance adjustments and changes in the fair market value of the company's common stock.

13. INCOME TAXES

The company's effective tax rates on income from continuing operations were 33.2 percent and 33.9 percent for the three months ended March 31, 2010, and 2009, respectively. The company's effective tax rates differ from the statutory federal rate primarily due to manufacturing deductions.

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. Open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material.

Subsequent Event – In April 2010, the company received final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS' examination of the company's tax returns for the years 2004 through 2006. As a result of the settlement, the company anticipates that it will reduce its liability for uncertain tax positions by approximately $300 million in the second quarter, the majority of which will be recorded as a reduction to the company's effective tax rate.

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, 2010, and the related condensed consolidated statements of operations, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2010 and 2009. 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, 2009, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 8, 2010, 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, 2009 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 27, 2010

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

OVERVIEW

Northrop Grumman Corporation (herein referred to as "Northrop Grumman", the "company", "we", "us", or "our") provides technologically advanced, innovative products, services, and integrated solutions in aerospace, electronics, information and services and shipbuilding to our global customers. We participate in many high-priority defense and government services technology programs in the United States (U.S.) and abroad as a prime contractor, principal subcontractor, partner, or preferred supplier. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD). We also conduct business with local, state, and foreign governments and domestic and international commercial customers.

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as our 2009 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, which provides a more thorough discussion of our products and services, industry outlook, and business trends. See discussion of consolidated operating results starting on page 23 and discussion of segment operating results starting on page 26.

Business Outlook and Operational Trends – There have been no material changes to our products and services, industry outlook, or business trends from those disclosed in our 2009 Form 10-K.

Economic Opportunities, Challenges, and Risks – The U.S. is engaged in a multi-front, multi-decade struggle that we expect will require an affordable balance between investments in current missions and investments in new capabilities to meet future challenges. The recently released 2010 Quadrennial Defense Review emphasizes the related challenge of rebuilding readiness at a time when the DoD is pursuing growth, modernization and transformation of its forces and capabilities. We do not expect defense requirements to change significantly in the foreseeable future, and the size of national security budgets is expected to remain responsive. The fiscal year 2011 budget submitted by the President and currently under deliberation in Congress requests $548.9 billion in discretionary authority for the DoD base budget (and an additional $159 billion to support contingency operations), representing a slight increase over the 2010 budget. Although the President's budget request proposes reductions to certain programs in which we participate or for which we expect to compete, we believe that spending on recapitalization and modernization of defense and homeland security assets will continue to be a national priority. Accordingly, defense procurement spending is expected to include the development and procurement of military platforms and systems demonstrating stealth, long-range, survivability and standoff capabilities. Advanced electronics and software that enhance the capabilities of individual systems and provide for the real-time integration of individual surveillance, information management, strike, and battle management platforms will also be a priority. Given the current era of irregular warfare, we expect an increase in investment in persistent awareness with intelligence, surveillance and reconnaissance (ISR) systems, cyber warfare, and expansion of information available for the warfighter to make timely decisions.

Recent Developments in U.S. Cost Accounting Standards (CAS) Pension Recovery Rules – On September 2, 2008, the CAS Board published an Advance Notice of Proposed Rulemaking that if adopted would provide 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. As published, the proposed rule would partially mitigate the near-term mismatch between PPA-amended Employee Retirement Income Security Act (ERISA) minimum contribution requirements, which would not yet be recoverable under CAS. However, until the final rule is published, and to the extent that the final rule does not completely eliminate any mismatch between ERISA funding requirements and CAS, government contractors maintaining defined benefit pension plans in general would still experience a timing mismatch between required contributions and pension expenses recoverable under CAS. The CAS Board is expected to issue a final rule in 2010, which would apply to our contracts starting in 2011. We anticipate that contractors will be entitled to seek an equitable adjustment for the additional CAS contract costs required by the final rule.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

There have been no material changes to our critical accounting policies, estimates, or judgments from those discussed in our 2009 Form 10-K.

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below:

	Three Months Ended March 31	
$ in millions, except per share	**2010**	2009
Sales and service revenues	**$8,610**	$7,935
Cost of sales and service revenues	**7,077**	6,598
General and administrative expenses	**768**	718
Operating income	**765**	619
Interest expense	**(80)**	(73)
Other, net	**7**	8
Federal and foreign income taxes	**230**	188
Diluted earnings per share from continuing operations	**1.51**	1.10
Net cash used in operating activities	**(531)**	(172)

Operating Performance Assessment and Reporting
We manage and assess the performance of our businesses based on our performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates and Judgments described in our 2009 Form 10-K. Our portfolio of long-term contracts is largely flexibly-priced, which means that sales tend to fluctuate in concert with costs across our large portfolio of active contracts, with operating income being a critical measure of operational performance. Due to the Federal Acquisition Regulation (FAR) rules that govern our business, most types of costs are allowable, and we do not focus on individual cost groupings (such as cost of sales or general and administrative costs) as much as we do on total contract costs, which are a key factor in determining contract operating income. As a result, in evaluating our operating performance, we look primarily at changes in sales and service revenues, and operating income, including the effects of significant changes in operating income as a result of changes in contract estimates and the use of the catch-up method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Unusual fluctuations in operating performance driven by changes in a specific cost element across multiple contracts, however, are described in our analysis. Based on this approach and the nature of our operations, the discussion of results of operations generally focuses around our five segments versus distinguishing between products and services. Our Aerospace Systems, Electronic Systems and Shipbuilding segments generate predominantly product sales, while the Information Systems and Technical Services segments generate predominantly service revenues.

Our accounting calendar convention occasionally results in variations in the number of working days in each quarter (see Note 1 to the condensed consolidated financial statements in Part I, Item 1). For the three months ended March 31, 2010, we had more working days as compared with the same period in 2009 and as a result, recorded approximately $400 million of additional revenue.

Sales and Service Revenues
Sales and service revenues consist of the following:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Product sales	**$5,526**	$4,570
Service revenues	**3,084**	3,365
Sales and service revenues	**$8,610**	$7,935

Product sales increased by $956 million, or 21 percent, over the same period in 2009, reflecting sales growth at the principal products businesses in Aerospace Systems, Electronic Systems and Shipbuilding. Service revenues decreased by $281 million, or 8 percent, over the same period in 2009, primarily due to programs previously characterized as service revenues transitioning into product sales programs. Lower sales volume on Defense Integrated Military Human Resources System (DIMHRS) and New York City Wireless (NYCWiN) programs in Information Systems also contributed to the decrease. See the Segment Operating Results section below for further information.

Cost of Sales and Service Revenues

Cost of sales and service revenues and general and administrative expenses are comprised of the following:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Cost of sales and service revenues		
Cost of product sales	**$4,296**	$3,635
% of product sales	***77.7%***	*79.5%*
Cost of service revenues	**2,781**	2,963
% of service revenues	***90.2%***	*88.1%*
General and administrative expenses	**768**	718
% of total sales and service revenues	***8.9%***	*9.0%*
Cost of sales and service revenues	**$7,845**	$7,316

Cost of Product Sales and Service Revenues – The decrease in cost of product sales as a percentage of product sales for the three months ended March 31, 2010, as compared with the same period in 2009, is primarily due to performance improvements at Shipbuilding.

Cost of service revenues for the three months ended March 31, 2010, decreased $182 million, as compared with the same period in 2009. The increase in cost of service revenues as a percentage of service revenues, is primarily due to the decline in service revenues discussed above. See the Segment Operating Results section below for further information.

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 as a percentage of total sales and service revenues decreased from 9.0 percent for the three months ended March 31, 2009, to 8.9 percent for the comparable period in 2010 primarily as a result of costs remaining relatively constant while revenues increased over the same period in 2009.

Operating Income

We consider operating income to be an important measure for evaluating our operating performance and, as is typical in the industry, we define operating income as revenues less the related cost of producing the revenues and general and administrative expenses. We also further evaluate operating income for each of the business segments in which we operate.

We internally manage our operations by reference to "segment operating income." Segment operating income is defined as operating income before unallocated corporate expenses and net pension adjustment, neither of which affect the segments, and the reversal of royalty income, which is classified as "other, net" for financial reporting purposes. Segment operating income is one of the key metrics we use to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under 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:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Segment operating income	**$810**	$755
Unallocated corporate expenses	**(33)**	(53)
Net pension adjustment	**(8)**	(76)
Royalty income adjustment	**(4)**	(7)
Total operating income	**$765**	$619

Segment Operating Income – Segment operating income for the three months ended March 31, 2010, increased $55 million, or 7 percent, as compared with the same period in 2009. Segment operating income was 9.4 percent and 9.5 percent of sales and service revenues for the three months ended March 31, 2010, and 2009, respectively. The increase in segment operating income is primarily due to improved program performance at Aerospace Systems and Technical Services. See Segment Operating Results below for further information.

Unallocated Corporate Expenses – Unallocated corporate expenses generally include the portion of corporate expenses not considered allowable or allocable under applicable CAS and FAR rules, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated corporate expenses for the three months ended March 31, 2010, decreased by $20 million from $53 million for the same period in 2009, primarily due to lower legal and environmental expenses than in the prior year period.

Net Pension Adjustment – Net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended March 31, 2010, and 2009, pension expense determined in accordance with GAAP was $149 million and $210 million, respectively, and pension expense determined in accordance with CAS was $141 million and $134 million, respectively. The decrease in GAAP pension expense in the first quarter of 2010 was primarily the result of favorable returns on pension plan assets in 2009.

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, 2010, increased $7 million as compared with the same period in 2009, primarily due to higher interest expense on capital leases.

Other, net
Other, net for the three months ended March 31, 2010, was $7 million and was comparable with the same period in 2009.

Federal and Foreign Income Taxes
Our effective tax rate on earnings from continuing operations for the three months ended March 31, 2010, was 33.2 percent compared with 33.9 percent for the same period in 2009. Our effective tax rates differ from the statutory federal rate primarily due to manufacturing deductions.

Discontinued Operations
Earnings from discontinued operations for the three months ended March 31, 2010, is primarily attributable to an additional gain on the sale of our Advisory Services Division (ASD), which was sold in December 2009, to reflect management's preliminary estimate of the purchase price adjustment called for under the sale agreement.

Earnings from discontinued operations for the three months ended March 31, 2009, were primarily attributable to the operating results of ASD. 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, 2010, were $1.51 per share, as compared with $1.10 per share in the same period in 2009. Earnings per share are based on weighted average diluted shares outstanding of 306.1 million for the three months ended March 31, 2010, and 332.1 million for the same period in 2009. See Note 7 to the condensed consolidated financial statements in Part I, Item 1.

Net Cash Used in Operating Activities
For the three months ended March 31, 2010, net cash used in operating activities was $531 million as compared with $172 million net cash used in operating activities for the same period in 2009. The $359 million of additional cash used in operating activities reflects higher trade working capital requirements, an additional payroll period due to the extra number of working days in the 2010 period and higher tax payments, partially offset by higher net earnings, lower discretionary funding of employee benefit plans and lower incentive compensation payments.

SEGMENT OPERATING RESULTS

Basis of Presentation
We are aligned into five reportable segments: Aerospace Systems, Electronic Systems, Information Systems, Shipbuilding and Technical Services.

In January 2010, we transferred our internal information technology services unit from the Information Systems segment to our shared services group. The intersegment sales and operating income for this unit that were previously recognized in the Information Systems segment are immaterial and have been eliminated for all periods presented.

	Three Months Ended March 31	
$ in millions	**2010**	2009
Sales and service revenues		
Aerospace Systems	**$2,696**	$2,456
Electronic Systems	**1,882**	1,788
Information Systems	**2,064**	2,093
Shipbuilding	**1,721**	1,375
Technical Services	**763**	632
Intersegment eliminations	**(516)**	(409)
Total sales and service revenues	**$8,610**	$7,935
Segment Operating income		
Aerospace Systems	**$ 296**	$ 258
Electronic Systems	**226**	229
Information Systems	**183**	186
Shipbuilding	**106**	84
Technical Services	**49**	37
Intersegment eliminations	**(50)**	(39)
Total segment operating income	**810**	755
Non-segment factors affecting operating income		
Unallocated corporate expenses	**(33)**	(53)
Net pension adjustment	**(8)**	(76)
Royalty income adjustment	**(4)**	(7)
Total operating income	**$ 765**	$ 619

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 operating 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), 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 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 33.

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 technology. Aerospace Systems' customers, which are primarily government agencies, use these systems 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 business areas: Strike & Surveillance Systems (S&SS); Space Systems (SS); Battle Management & Engagement Systems (BM&ES); and Advanced Programs & Technology (AP&T).

	Three Months Ended March 31	
$ in millions	**2010**	2009
Sales and service revenues	**$2,696**	$2,456
Segment operating income	**296**	258
As a percentage of segment sales	***11.0%***	*10.5%*

Sales and Service Revenues

Aerospace Systems revenue for the three months ended March 31, 2010, increased $240 million, or 10 percent, as compared with the same period in 2009. The increase is primarily due to $125 million higher sales in BM&ES, $118 million higher sales in S&SS, and $74 million higher sales in SS, partially offset by $84 million lower sales in AP&T. The increase in BM&ES is primarily due to higher sales volume on the Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System, the EA-18G, E-2D Advanced Hawkeye, and EA-6B programs. The increase in S&SS is primarily due to higher sales volume from Global Hawk High-Altitude Long-Endurance (HALE) Systems, F-35, F/A-18, and B-2 programs, partially offset by decreased activity on the Kinetic Energy Interceptor program, which was terminated for convenience in the second quarter of 2009, and the Intercontinental Ballistic Missile (ICBM) program. The increase in SS is primarily due to higher sales volume on certain restricted programs and the Advanced Extremely High Frequency (AEHF) program, partially offset by lower sales volume on the Space Tracking and Surveillance System (STSS) program. The decrease in AP&T is primarily due to lower sales volume on restricted programs.

Segment Operating Income
Operating income at Aerospace Systems for the three months ended March 31, 2010, increased $38 million, or 15 percent, as compared with the same period in 2009. The increase is due to $26 million from the higher sales volume discussed above and $12 million of improved performance on S&SS and AP&T programs.

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 and missile defense, communications, mail processing, biochemical detection, ship bridge control and radar, ship machinery controls, and shipboard components. The segment is composed of five business areas: Intelligence, Surveillance & Reconnaissance (ISR) Systems; Land and Self Protection Systems; Naval & Marine Systems; Navigation Systems; and Targeting Systems.

	Three Months Ended March 31	
$ in millions	**2010**	2009
Sales and service revenues	**$1,882**	$1,788
Segment operating income	**226**	229
As a percentage of segment sales	***12.0%***	*12.8%*

Sales and Service Revenues
Electronic Systems revenue for the three months ended March 31, 2010, increased $94 million, or 5 percent, as compared with the same period in 2009. The increase is primarily due to $86 million higher sales in Targeting Systems and $12 million higher sales in Navigation Systems. The increase in Targeting Systems is due to increased unit deliveries on the F-22 and F-16 V (9) Kits programs, and higher sales volume on the F-35 Low Rate Initial Production (LRIP) program. The increase in Navigation Systems is due to higher volume on Inertial and Fiber Optic Gyro Navigation and domestic navigation system programs. Additionally, intercompany programs driven by BAMS and EA-18G contributed to the revenue increase.

Segment Operating Income
Operating income at Electronic Systems for the three months ended March 31, 2010, decreased $3 million, or 1 percent, as compared with the same period in 2009. The decrease in operating income and operating income as a percentage of sales is attributable to lower performance for postal automation programs as well as lower royalty income, than in the prior year period and a provision for an announced workforce reduction at several locations within the segment, which more than offset the higher sales volume discussed above and performance improvements in combat avionics and land and self-protection systems programs.

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; air and missile defense; airborne reconnaissance; intelligence processing; decision support systems; cybersecurity; information technology; and systems engineering and systems integration. The segment consists of three business areas: Defense Systems; Intelligence Systems; and Civil Systems.

$ in millions	Three Months Ended March 31 2010	2009
Sales and service revenues	**$2,064**	$2,093
Segment operating income	**183**	186
As a percentage of segment sales	***8.9%***	*8.9%*

Sales and Service Revenues
Information Systems revenue for the three months ended March 31, 2010, decreased $29 million, or 1 percent, as compared with the same period in 2009. The decrease is primarily due to $37 million lower sales in Civil Systems, $12 million lower sales in Defense Systems, partially offset by $25 million higher sales in Intelligence Systems. The decrease in Civil Systems is primarily due to lower volume on the Armed Forces Health Longitudinal Technology Application, DIMHRS and NYCWiN programs. The decrease in Defense Systems is primarily due to decreased activity on the Trailer Mounted Support Systems program as it nears completion, and lower sales volume on Integrated Base Defense Security System, partially offset by program growth on Battlefield Airborne Communications Node (BACN) and Joint National Integration Center Research and Development Contract (JRDC) activities. The increase in Intelligence Systems is primarily due to higher sales volume on the Counter Narco-Terrorism Program Office (CNTPO) program and certain restricted programs, partially offset by the loss of the Navstar Global Positioning System Operational Control Segment (GPS OCX) program.

Segment Operating Income
Operating income at Information Systems for the three months ended March 31, 2010, decreased $3 million, or 2 percent, as compared with the same period in 2009. The decrease is primarily due to the lower 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 programs for the surface ships of the U.S. Navy, U.S. Coast Guard, and international navies. The segment includes the following areas of business: Aircraft Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense; Fleet Support; and Services & Other.

$ in millions	Three Months Ended March 31 2010	2009
Sales and service revenues	**$1,721**	$1,375
Segment operating income	**106**	84
As a percentage of segment sales	***6.2%***	*6.1%*

Sales and Service Revenues
Shipbuilding revenue for the three months ended March 31, 2010, increased $346 million, or 25 percent, as compared with the same period in 2009. The increase is primarily due to $213 million higher sales in Expeditionary Warfare, $91 million higher sales in Surface Combatants, and $61 million higher sales in Aircraft Carriers. The increase in Expeditionary Warfare is primarily due to higher sales volume in the LPD and LHA programs. The increase in Surface Combatants is primarily due to higher sales volume on the DDG 51 program. The increase in Aircraft Carriers is primarily due to higher sales volume on the Gerald R. Ford construction programs, partially offset by lower volume on the USS *George H.W. Bush* construction.

Segment Operating Income
Operating income at Shipbuilding for the three months ended March 31, 2010, increased $22 million, or 26 percent, as compared with the same period in 2009. The increase is primarily due to the higher sales volume discussed above. During the first quarter of 2010, the LPD program experienced unfavorable program performance, which was partially offset by business interruption insurance recovery related to Hurricane Ike (see Note 10 to the condensed consolidated financial statements in Part I, Item 1). In the first quarter of 2009, operating income included a favorable adjustment on the LHD 8 contract, which was more than offset by unfavorable adjustments on the DDG 51 and LPD 17 programs.

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).

	Three Months Ended March 31	
$ in millions	**2010**	2009
Sales and service revenues	**$763**	$632
Segment operating income	**49**	37
As a percentage of segment sales	***6.4%***	*5.9%*

Sales and Service Revenues
Technical Services revenue for the three months ended March 31, 2010, increased $131 million, or 21 percent, as compared with the same period in 2009. The increase is primarily due to $105 million higher sales in LCOE and $19 million higher sales for SSG. The increase in LCOE is primarily due to increased task orders for the CNTPO program, the continued ramp-up of the recently awarded KC-10 and C-20 programs, higher demand on the Hunter Contractor Logistics Support (CLS) program in support of the DoD's surge in Intelligence, Surveillance, and Reconnaissance (ISR) initiatives, and additional UK Airborne Warning and Control System (AWACS) radar support. The increase in SSG is primarily due to increased activity on Department of Energy programs at National Security Technology (NSTec), as well as higher sales volume on the Ft. Polk program.

Segment Operating Income
Operating income at Technical Services for the three months ended March 31, 2010, increased $12 million, or 32 percent, as compared with the same period in 2009. The increase in operating income is primarily due to the higher sales volume discussed above. Operating income as a percentage of sales increased 50 basis points and reflects improved program performance and a shift in sales mix to higher margin business in LCOE.

BACKLOG

Definition
Total backlog at March 31, 2010, was approximately $67.5 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 indefinite delivery indefinite quantity (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.

Backlog consisted of the following at March 31, 2010, and December 31, 2009:

	March 31, 2010			December 31, 2009		
$ in millions	**Funded**	**Unfunded**	**Total Backlog**	Funded	Unfunded	Total Backlog
Aerospace Systems	**$10,643**	**$13,475**	**$24,118**	$ 8,320	$16,063	$24,383
Electronic Systems	**7,986**	**2,321**	**10,307**	7,591	2,784	10,375
Information Systems	**4,586**	**4,181**	**8,767**	4,319	4,508	8,827
Shipbuilding	**12,082**	**6,988**	**19,070**	11,294	9,151	20,445
Technical Services	**2,551**	**2,651**	**5,202**	2,352	2,804	5,156
Total backlog	**$37,848**	**$29,616**	**$67,464**	$33,876	$35,310	$69,186

New Awards
The estimated value of contract awards included in backlog during the three months ended March 31, 2010, was $6.9 billion. Significant new awards during this period include $437 million for the E-2D Advanced Hawkeye program, $340 million for the Global Hawk HALE program, $260 million for the KC-10 program, $207 million for the ICBM program, and various restricted awards.

LIQUIDITY AND CAPITAL RESOURCES

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in growing our businesses and maximizing shareholder value. We actively manage our capital resources through working capital improvements, capital expenditures, strategic business acquisitions and divestitures, debt issuance and repayment, required and voluntary pension contributions, and returning cash to our shareholders through dividend payments and repurchases of common stock.

We use various financial measures to assist in capital deployment decision making, including net cash provided by operations, free cash flow, net debt-to-equity, and net debt-to-capital. We believe these measures are useful to investors in assessing our financial performance.

The table below summarizes key components of cash flow used in operating activities:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Net earnings	**$ 469**	$ 389
(Earnings) from discontinued operations		(23)
Other non-cash items(1)	**200**	255
Retiree benefit funding (in excess of) less than expense	**107**	(5)
Trade working capital increase	**(1,307)**	(832)
Cash provided by discontinued operations		44
Net cash used in operating activities	**$ (531)**	$(172)

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

Free Cash Flow
Free cash flow represents cash from operating activities less capital expenditures and outsourcing contract and related software costs. Outsourcing contract and related software costs are similar to capital expenditures in that the contract costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition and transition/set-up. These outsourcing contract and related software costs are deferred and expensed over the contract life. We believe free cash flow is a useful measure for investors to consider. This measure is a key factor in our planning for and consideration of strategic acquisitions, stock repurchases and the payment of dividends.

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

For 2010, cash generated from operations supplemented by borrowings under credit facilities and in the capital markets, if needed, 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 our shareholders.

The table below reconciles net cash used in operating activities to free cash flow:

	Three Months Ended March 31	
$ in millions	**2010**	2009
Net cash used in operating activities	**$(531)**	$(172)
Less:		
Capital expenditures	**(135)**	(162)
Outsourcing contract and related software costs	**(3)**	(18)
Free cash flow from operations	**$(669)**	$(352)

Cash Flows

The following is a discussion of our major operating, investing and financing activities for the three months ended March 31, 2010, and 2009, respectively, as classified in the condensed consolidated statements of cash flows located in Part I, Item 1.

Operating Activities – Net cash used in operating activities for the three months ended March 31, 2010, was $531 million compared with $172 million for the same period in 2009. The $359 million of additional cash used in operating activities reflects higher trade working capital requirements, an additional payroll period due to the extra number of working days in the 2010 period, and higher tax payments, partially offset by higher net earnings, lower discretionary funding of employee benefit plans and lower incentive compensation payments.

Investing Activities – Net cash used in investing activities for the three months ended March 31, 2010, was $135 million compared with $176 million in the same period of 2009. The $41 million reduction in cash used in investing activities is primarily due to $27 million in lower capital expenditures and $15 million in lower outsourcing contract and related software costs.

Financing Activities – Net cash used in financing activities for the three months ended March 31, 2010, was $648 million compared to $274 million in the same period of 2009. The $374 million of additional cash used in financing activities is primarily due to $357 million in higher share repurchases and the payment on a $89 million senior note that matured in February 2010, partially offset by $62 million in higher proceeds from stock option exercises.

ACCOUNTING STANDARDS UPDATES

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

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

Statements in this Form 10-Q and the information we are incorporating by reference, other than statements of historical fact, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expect,” “intend,” “plan,” “project,” “forecast,” “believe,” “estimate,” “outlook,” “anticipate,” “target,” “trends” and similar expressions generally identify these forward-looking statements. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to, those identified under Risk Factors in our 2009 Form 10-K and other important factors disclosed in this report and from time to time in our other filings with the SEC.

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

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations from those discussed in our 2009 Form 10-K.

GLOSSARY OF PROGRAMS

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

Program Name	**Program Description**
Advanced Extremely High Frequency (AEHF)	Provide the communication payload for the nation’s next generation military strategic and tactical satellite relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
Airborne Warning and Control System (AWACS) radar	Provide all-weather surveillance and command, control and communications needed by commanders of air tactical forces.
Armed Forces Health Longitudinal Technology Application	An enterprise-wide medical and dental clinical information system that provides secure online access to health records.
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.
Battlefield Airborne Communications Node (BACN)	Install the BACN system in three Bombardier BD-700 Global Express aircraft for immediate fielding and install the BACN system into two Global Hawk Block 20 unmanned aerial vehicles.
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.
Counter Narco-Terrorism Program Office (CNTPO)	Counter Narco-Terrorism Program Office provides 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.
C-20	Contractor Logistics Services (CLS) contract supporting the U.S. Air Force, Army, Navy and Marine Corps C-20 aircraft including depot maintenance, contractor operational and maintained base supply, flight line maintenance and field team support at multiple Main Operating Bases (MOBs), located in the United States and overseas.

Program Name	Program Description
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
Defense Integrated Military Human Resources System (DIMHRS)	An enterprise resource planning program for human resources to replace legacy systems and integrate payroll and personnel functions into one integrated web-based system for the Business Transformation Agency's Defense Business Systems Acquisition Executive, within the U.S. DoD.
E-2 Hawkeye	The U.S. Navy's airborne battle management command and control mission system platform providing airborne early warning detection, identification, tracking, targeting, and communication capabilities. The company is developing the next generation capability including radar, mission computer, vehicle, and other system enhancements, to support the U.S Naval Battle Groups and Joint Forces, called the E-2D Advanced Hawkeye. Recently the U.S. Navy approved Milestone C for Low Rate Initial Production.
EA-6B	The EA-6B (Prowler) primary mission is to jam enemy radar and communications, thereby preventing them from directing hostile surface-to-air missiles at assets the Prowler protects. When equipped with the improved ALQ-218 receiver and the next generation ICAP III (Increased Capability) Airborne Electronic Attack (AEA) suite the Prowler is able to provide rapid detection, precise classification, and highly accurate geolocation of electronic emissions and counter modern, frequency-hopping radars. A derivative/variant of the EA-6B ICAP III mission system is also being incorporated into the F/A-18 platform and designated the EA-18G.
EA-18G	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 in incorporated into an F/A-18 platform (designated the EA-18G).
F-16 Block 60	Direct commercial firm fixed-price program with Lockheed Martin Aeronautics Company to develop and produce 80 Lot systems for aircraft delivery to the United Arab Emirates Air Force as well as test equipment and spares to be used to support in-country repairs of sensors.
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.
F-22	Joint venture with Raytheon to design, develop and produce the F-22 radar system. Northrop Grumman is responsible for the overall design of the AN/APG-77 and AN/APG-77(V) 1 radar systems, including the control and signal processing software and responsibility for the AESA radar systems integration and test activities. In addition, Northrop Grumman is responsible for overall design and integration of the F-22 Communication, Navigation, and Identification (CNI) system.
F-35 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.

Program Name	Program Description
Ft. Polk program	Provide logistical support including vehicle and equipment maintenance, base supply, transportation and deployment/redeployment support for Fort Polk and rotational training units.
Gerald R. Ford-class aircraft carriers	Design and construction for the new class of aircraft carriers.
Global Hawk High-Altitude Long-Endurance (HALE) Systems	Develop, deliver and sustain the Global Hawk HALE unmanned aerial system and its derivatives to both domestic and international customers for intelligence, reconnaissance, and surveillance, including deployment of assets to support the global war on terror. The Global Hawk system has a central role in ISR missions supporting operations in Afghanistan and Iraq.
Hunter Contractor Logistics Support (CLS)	Operate, maintain, train and sustain the multi-mission Hunter Unmanned Aerial System in addition to deploying Hunter support teams.
Inertial Navigation Programs	Consists of a wide variety of products across land, sea and space that address the customers' needs for precise knowledge of position, velocity, attitude, and heading. These applications include platforms, such as the F-16, satellites and ground vehicles as well as for sensors such as radar, MP-RTIP, and EO/IR pods. Many inertial applications require integration with GPS to provide a very high level of precision and long term stability.
Intercontinental Ballistic Missile (ICBM)	Maintain readiness of the nation's ICBM weapon system.
Integrated Base Defense Security System (IBDSS)	Integrated Base Defense Security System contract is an IDIQ acquisition vehicle to provide the U.S. Air Force and other DoD customers with integrated base defense security solutions, utilizing comprehensive and integrated technology to satisfy a wide array of security concerns both within and outside the continental U.S.
Joint National Integration Center Research and Development Contract (JRDC)	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.
KC-10	Contractor Logistics Services (CLS) contract supporting the U.S. Air Force KC-10 tanker fleet including depot maintenance, supply chain management, maintenance and management at locations in the United States and worldwide.
Kinetic Energy Interceptor (KEI)	Develop mobile missile-defense system with the unique capability to destroy a hostile missile during its boost, ascent or midcourse phase of flight. This program was terminated for the U.S. government's convenience in 2009.
LHA	Amphibious assault ships that will provide forward presence and power projection as an integral part of joint, interagency, and multinational maritime expeditionary forces.
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 and humanitarian missions.

Program Name	Program Description
National Security Technology (NSTec)	Manage and operate the Nevada Test Site facility, providing infrastructure support, including management of the nuclear explosives safety team, supporting hazardous chemical spill testing, emergency response training and conventional weapons testing.
Navstar Global Positioning System Operational Control Segment (GPS OCX)	Operational control system for existing and future GPS constellation. Includes all satellite C2, mission planning, constellation management, external interfaces, monitoring stations, and ground antennas. Phase A effort includes effort to accomplish a System Requirements Review (SRR), System Design Review (SDR), and development of a Mission Capabilities Engineering Model (MCEM) prototype.
New York City Wireless Network (NYCWiN)	Provide New York City's broadband public-safety wireless network.
Space Tracking and Surveillance System (STSS)	Develop a critical system for the nation's missile defense architecture employing low-earth orbit satellites with onboard sensors to provide target acquisition, tracking, and discrimination of ballistic missile threats to the United States and its deployed forces and allies. The program includes delivery of two flight demonstration satellites and the ground processing segment.
Trailer Mounted Support System (TMSS)	Trailer Mounted Support System is a key part of the U.S. Army's SICPS Program providing workspace, power distribution, lighting, environmental conditioning (heating and cooling) tables and a common grounding system for commanders and staff at all echelons.
USS *George H. W. Bush*	The 10th and final Nimitz-class aircraft carrier that will incorporate many new design features, commissioned in early 2009 (CVN 77).

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates – We are exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include variable-rate short-term borrowings under the credit agreement and short-term investments. At March 31, 2010, substantially all outstanding borrowings were fixed-rate long-term debt obligations of which a significant portion are not callable until maturity. We have a modest exposure to interest rate risk resulting from the interest rate swap agreement. Our sensitivity to a 1 percent change in interest rates is tied to our $2 billion credit agreement, which had no balance outstanding at March 31, 2010, or December 31, 2009, and to our interest rate swap agreements. See Note 3 to the condensed consolidated financial statements in Part I, Item 1.

Derivatives – We do not hold or issue derivative financial instruments for trading purposes. We may enter into interest rate swap agreements to manage our exposure to interest rate fluctuations. At March 31, 2010, and December 31, 2009, we had one interest rate swap agreement in effect. See Note 3 to the condensed consolidated financial statements in Part I, Item 1.

Foreign Currency – We enter 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, 2010 and December 31, 2009, the amount of foreign currency forward contracts outstanding was not material. We do not consider the market risk exposure related to foreign currency exchange to be material to the condensed consolidated financial statements. See Note 3 to the condensed consolidated financial statements in Part I, Item 1.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our principal executive officer (Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of March 31, 2010, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit 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 in the reports that we file or submit 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, 2010, no change occurred in our internal controls over financial reporting that materially affected, or is likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have provided information about legal proceedings in which we are involved in Note 9 to the condensed consolidated financial statements in Part I, Item 1. In addition to the matters disclosed in Note 9, we are a party to various investigations, lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Based on information available to us, we do not believe at this time that any of such matters will individually, or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. For further information on the risks we face from existing and future investigations, lawsuits, claims and other legal proceedings, please see Risk Factors in our 2009 Form 10-K, as amended or supplemented by the information, if any, in Part II, Item 1A below.

Item 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in our 2009 Annual Report on Form 10-K.

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

Purchases of Equity Securities – The table below summarizes our repurchases of common stock during the three months ended March 31, 2010:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ($ in millions)
January 1 through January 31, 2010	5,043,115	$ 57.38	5,043,115	$635
February 1 through February 28, 2010	2,720,358	60.39	2,720,358	470
March 1 through March 31, 2010	490,208	64.50	490,208	439
Total	**8,253,681**	**$ 58.80**	**8,253,681**	**$439(1)**

(1) On December 19, 2007, our board of directors authorized a share repurchase program of up to $2.5 billion of our outstanding common stock. On November 5, 2009, the board of directors authorized an additional $1.1 billion to the December 19, 2007 authorization. As of the end of the first quarter 2010, we had $439 million remaining under 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. We retire our common stock upon repurchase and have not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

(2) Includes commissions paid and calculated as the average price per share since the repurchase program authorization date.

Item 3. Defaults upon Senior Securities

No information is required in response to this item.

Item 4. Other Information

On February 16, 2010, James F. Palmer was granted 258,000 stock options with an exercise price of $59.56 that will vest over four years and will expire after seven years. Fifty percent of the stock option will vest in three years from the date of grant, and the remaining fifty percent will vest four years from the date of grant. Mr. Palmer was also awarded 42,000 restricted stock rights, all of which will vest four years from the date of grant. The form of restricted stock agreement is attached as Exhibit 10.4 to this report.

Item 5. Exhibits

3.1	Amended and Restated Bylaws dated February 17, 2010 (incorporated by reference to Exhibit 3.2 to Form 8-K dated and filed February 22, 2010)
10.1	Compensatory Arrangements of Certain Officers for 2010 (incorporated by reference to Item 5.02(e) of Form 8-K dated and filed February 22, 2010)
*10.2	Form of Agreement for 2010 Restricted Performance Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan
*10.3	Form of Agreement for 2010 Stock Options granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan
*10.4	Form of Agreement for 2010 Restricted Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan
*10.5	Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments dated March 31, 2010
10.6	Non-Employee Director Compensation Term Sheet, effective January 1, 2010 (incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed December 21, 2009)
10.7	Northrop Grumman Corporation January 2010 Change in Control Severance Plan (effective as of January 1, 2010) (incorporated by reference to Exhibit 10(p) to Form 10-K for the year ended 2009, filed February 9, 2010)
10.8	Appendix I to the Northrop Grumman Supplemental Plan 2 (Amended and Restated Effective as of January 1, 2009): Officers Supplemental Executive Retirement Program II (Effective as of January 1, 2010) (incorporated by reference to Exhibit 10(i)(v) to Form 10-K for the year ended 2009, filed February 9, 2010)
*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 Wesley G. Bush (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 Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**101	Northrop Grumman Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, formatted in XBRL (Extensible Business Reporting Language); (i) the Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Financial Position, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text

*	Filed with this Report
**	Furnished with this Report

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 27, 2010

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO
2010 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 2010. If you were granted an RPSR award by the Company in 2010, 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 2010 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 10 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, 2010 to December 31, 2012 (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. <u>Vesting; Payment of RPSRs</u>.

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"). 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 ***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. <u>Early Termination of Award; Termination of Employment</u>.

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 <u>and</u>, 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 75th day following the date of the Grantee's death or Disability (and generally will be paid on or about such 75th day).

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).

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.

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 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 addition, for RPSRs that do not use a relative total shareholder return metric as the applicable performance criterion, the Committee shall adjust the applicable performance criteria to eliminate the effects of the gain, loss, income or expense or other extraordinary items resulting from (i) changes in accounting principles that become effective during the Performance Period, (ii) the purchase or disposition of a business during the Performance Period, and (iii) extraordinary charges not foreseen at the date of grant of the RPSRs, provided that the Committee shall have the discretion not to make any such adjustment if not making such adjustment would result in a reduction in the number of Earned RPSRs. 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. Required Holding Period.

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on the date Earned RPSRs are paid (or, if earlier, on the date the Grantee's employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for Earned RPSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock are paid to the Grantee, or (B) the date the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's death or Disability. Should the Grantee's employment by the Company and its subsidiaries terminate (regardless of the reason for such termination, but other than due to the Grantee's death or Disability), such holding period requirement shall not apply as to any shares acquired upon payment of Earned RPSRs to the extent such payment is made more than one year after such termination of employment. (For purposes of clarity, in such circumstances the holding period requirement will apply as to any shares acquired upon payment of Earned RPSRs within one year after such a termination of employment.) For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives as payment for Earned RPSRs shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 9 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

10. 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 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 form 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.

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2010 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 2010. If you were granted a stock option by the Company in 2010, 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 10 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 (7th) 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 10 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 10 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. <u>Non-Transferability and Other Restrictions</u>.

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. <u>Compliance with Laws; No Stockholder Rights Prior to Issuance</u>.

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. <u>Adjustments; Change in Control</u>.

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. **<u>Tax Matters</u>**.

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. Required Holding Period.

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on any date the Option is exercised (or, if earlier, on the date the Grantee's employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number of shares of Common Stock the Grantee receives upon any exercise of the Option until the earlier of (A) the third anniversary of the date of exercise, or (B) the date of the Grantee's death or Disability. Should the Grantee's employment by the Company and its subsidiaries terminate (regardless of the reason for such termination, but other than due to the Grantee's death or Disability), such holding period requirement shall not apply as to any shares acquired upon exercise of the Option to the extent the Option remains exercisable for more than one year after such termination of employment and such exercise actually occurs more than one year after such termination of employment. (For purposes of clarity, in such circumstances the holding period requirement will apply as to any shares acquired upon exercise of the Option within one year after such a termination of employment.) For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives upon exercise shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the Option that the Company withholds to satisfy tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 9 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

10. 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 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. 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 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
2010 RESTRICTED STOCK RIGHTS
GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain "Restricted Stock Rights" ("RSRs") granted by Northrop Grumman Corporation (the "Company") to __________________ in __________________ 2010. The date of grant of the RSR award is __________________ **2010** (the "Grant Date"). The number of RSRs applicable to the award is __________________. The date of grant and number of RSRs 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 the 2010 RSR award identified above. You are referred to as the "Grantee" with respect to your award. Capitalized terms are generally defined in Section 10 below if not otherwise defined herein.

Each RSR 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 number of RSRs subject to your award is subject to adjustment as provided herein. The RSR 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. **<u>Vesting; Issuance of Shares</u>**.

Subject to Sections 2 and 5 below, one hundred percent (100%) of the number of RSRs subject to your award (subject to adjustment as provided in Section 5.1) shall vest upon the fourth anniversary of the Grant Date.

Except as otherwise provided below, the Company shall pay a vested RSR within 90 days following the vesting of the RSR on the fourth anniversary of the Grant Date. The Company shall pay such vested RSRs 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 vested RSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested. No fractional shares will be issued.

2. **<u>Early Termination of Award; Termination of Employment</u>**.

2.1 ***General***. The RSRs subject to the award, to the extent not previously vested, shall terminate and become null and void if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided in Section 2.6 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

2.2 ***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.

2.3 ***Salary Continuation***. Subject to Section 2.2 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 2.2) 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 2.2, 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.

2.4 ***Sale or Spinoff of Subsidiary or Business Unit***. For purposes of the RSRs 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 otherwise continue to be employed by the Company after such event.

2.5 ***Continuance of Employment Required***. Except as expressly provided in Section 2.6 and in Section 5, the vesting of the RSRs subject to the award requires continued employment through the fourth anniversary of the Grant Date as a condition to the vesting of any portion of the award. Employment for only a portion of the vesting 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 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.

2.6 ***Death or Disability***. If the Grantee dies or incurs a Disability while employed by the Company or a subsidiary, the outstanding and previously unvested RSRs subject to the award shall vest as of the date of the Grantee's death or Disability, as applicable. RSRs vesting under this Section shall be paid in the calendar year containing the 75th day (and generally will be paid on or about such 75th day) following the earlier of (a) Grantee's death or (b) Grantee's Disability. In the event of the Grantee's death prior to the delivery of shares or other payment with respect to any vested RSRs, 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 vested and unpaid RSRs.

3. <u>Non-Transferability and Other Restrictions</u>.

3.1 ***Non-Transferability***. The award, as well as the RSRs 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: (a) transfers to the Company; or (b) transfers pursuant to a qualified domestic relations order (as defined in the Code). 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. <u>Compliance with Laws; No Stockholder Rights Prior to Issuance</u>.

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 RSRs 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. <u>Adjustments; Change in Control</u>.

5.1 ***Adjustments***. The RSRs 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 Company's ability to terminate the award as provided in Section 5.3 below, the outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date 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, 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.

Payment of any amount due under this Section will be made within 90 days of the second anniversary of the Grant Date.

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 outstanding and previously unvested RSRs subject to the award shall vest fully and completely. 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 award shall terminate, subject to such acceleration provisions, upon a Change in Control triggered by clause (iii) or (iv) of the definition thereof in which 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. 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 RSRs; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any amount due under this Section will be made within 90 days of the second anniversary of the Grant Date.

6. **<u>Tax Matters</u>**.

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 RSRs, 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 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 RSRs.

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. **<u>Committee Authority</u>**.

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 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 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 RSRs 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 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 govern.

9. Required Holding Period.

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on the date vested RSRs are paid (or, if earlier, on the date the Grantee's employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for vested RSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock are paid to the Grantee, or (B) the date the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's death or Disability. For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives as payment for vested RSRs shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 9 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

10. 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 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 at 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 form 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

POLICY REGARDING THE RECOUPMENT OF CERTAIN PERFORMANCE-BASED COMPENSATION PAYMENTS [also known as “Clawback” Policy]

Revised: March 31, 2010

The Board of Directors or Compensation Committee shall, in such circumstances as it determines to be appropriate, require reimbursement of all or a portion of any performance-based short or long-term cash or equity incentive payments to an employee at the vice-president level or more senior position where:

(1) the amount of, or number of shares included in, any such payment was calculated based on the achievement of financial results that were subsequently the subject of an accounting restatement due to noncompliance with any financial reporting requirement under the securities laws;

(2) a lesser payment of cash or shares would have been made to the employee based upon the restated financial results; and

(3) the payment of cash or shares was received by the employee prior to or during the 12-month period following the first public issuance or filing of the financial results that were subsequently restated.

This policy does not limit any other remedies the Company may have available to it in the circumstances, which may include, without limitation, dismissing an employee or initiating other disciplinary procedures. The provisions of this policy are in addition to (and not in lieu of) any rights to repayment the Company may have under Section 304 of the Sarbanes-Oxley Act of 2002 (applicable to the Chief Executive Officer and Chief Financial Officer only) and other applicable laws.

NORTHROP GRUMMAN CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

$ in millions	Year Ended December 31 2009	2008	2007	2006	2005	Three Months Ended March 31 2010	2009[1]
Earnings:							
Earnings (loss) from continuing operations before income taxes	$2,266	$(520)	2,606	$2,226	$2,001	$692	$554
Fixed Charges:							
Interest expense, including amortization of debt premium	281	295	336	346	388	80	73
Portion of rental expenses on operating leases deemed to be representative of the interest factor	183	190	189	174	169	43	47
Earnings (loss) from continuing operations before income taxes and fixed charges	2,730	(35)	3,131	2,746	2,558	815	674
Fixed Charges:	464	485	525	520	557	123	120
Ratio of earnings to fixed charges[2]	5.9	–	6.0	5.3	4.6	6.6	5.6

(1) Certain prior-period information has been reclassified to conform to the current year's presentation.

(2) For the year ended December 31, 2008, the company's earnings were insufficient to cover fixed charges by $520 million. This loss was entirely due to the non-cash goodwill impairment charge of $3.1 billion recorded during the fourth quarter at the Aerospace and Shipbuilding Systems segments.

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

April 27, 2010

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, 2010 and 2009, as indicated in our report dated April 27, 2010; 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, 2010, 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 No. 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, Wesley G. Bush, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and

5. The company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

/s/ Wesley G. Bush
Wesley G. Bush
Chief Executive Officer and President

Date: April 27, 2010

Exhibit 31.2

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.

/s/ James F. Palmer
James F. Palmer
Corporate Vice President and Chief Financial Officer

Date: April 27, 2010

Exhibit 32.1

**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, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wesley G. Bush, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ Wesley G. Bush
Wesley G. Bush
Chief Executive Officer and President

Date: April 27, 2010

Exhibit 32.2

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, 2010, 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.

/s/ James F. Palmer
James F. Palmer
Corporate Vice President and Chief Financial Officer

Date: April 27, 2010