

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

**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2003

or

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

For the transition period from      to

Commission File Number: 1-16411

**NORTHROP GRUMMAN CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**95-4840775**

(I.R.S. Employer  
Identification Number)

**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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes

No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

As of October 30, 2003

Common stock outstanding  
Preferred stock outstanding

183,128,533 shares  
3,500,000 shares

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION

<i>\$ in millions</i>	(Unaudited) September 30, 2003	December 31, 2002
<b>Assets:</b>		
Cash and cash equivalents	\$ 359	\$ 1,412
Accounts receivable, net of progress payments of \$20,478 in 2003 and \$16,216 in 2002	2,987	2,949
Inventoried costs, net of progress payments of \$833 in 2003 and \$988 in 2002	1,125	1,091
Deferred income taxes	430	662
Prepaid expenses and other current assets	165	160
Assets of businesses held for sale	386	9,621
<b>Total current assets</b>	<b>5,452</b>	<b>15,895</b>
<b>Net property, plant and equipment</b>	<b>3,921</b>	<b>3,605</b>
<b>Goodwill</b>	<b>17,401</b>	<b>15,657</b>
Other purchased intangibles, net of accumulated amortization of \$931 in 2003 and \$760 in 2002	1,766	2,553
Prepaid retiree benefits cost and intangible pension asset	3,389	3,618
Deferred income taxes	527	174
Miscellaneous other assets	1,205	824
<b>Total other assets</b>	<b>24,288</b>	<b>22,826</b>
<b>Total Assets</b>	<b>\$ 33,661</b>	<b>\$ 42,326</b>

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

<i>\$ in millions</i>	(Unaudited) September 30, 2003	December 31, 2002
<b>Liabilities and Shareholders' Equity:</b>		
Notes payable to banks	\$ 24	\$ 22
Current portion of long-term debt	122	203
Trade accounts payable	1,349	1,427
Accrued employees' compensation	1,037	1,018
Advances on contracts	1,077	1,066
Contract loss provisions	482	453
Income taxes payable	233	1,237
Other current liabilities	1,077	1,414
Liabilities of businesses held for sale	152	4,593
<b>Total current liabilities</b>	<b>5,553</b>	<b>11,433</b>
Long-term debt	6,267	9,398
Accrued retiree benefits	5,955	5,942
Mandatorily redeemable preferred stock	350	350
Other long-term liabilities	746	742
Minority interest	27	139
<b>Total liabilities</b>	<b>18,898</b>	<b>28,004</b>
<b>Paid-in capital</b>		
Common stock, 800,000,000 shares authorized; issued and outstanding: 2003 – 183,035,805; 2002 – 182,602,390	12,528	12,511
Retained earnings	3,280	2,870
Unearned compensation	(7)	(11)
Accumulated other comprehensive loss	(1,038)	(1,048)
<b>Total shareholders' equity</b>	<b>14,763</b>	<b>14,322</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 33,661</b>	<b>\$ 42,326</b>

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

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)**

<i>\$ in millions, except per share</i>	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Product sales and service revenues	\$ 6,619	\$ 4,214	\$ 19,112	\$ 12,376
Cost of product sales and service revenues				
Operating costs	5,580	3,440	16,228	10,157
Administrative and general expenses	608	461	1,734	1,239
Operating margin	431	313	1,150	980
Interest income	16	2	45	6
Interest expense	(118)	(106)	(381)	(320)
Other, net	(5)	(11)	23	9
Income from continuing operations before income taxes and cumulative effect of accounting change	324	198	837	675
Federal and foreign income taxes	100	57	232	204
Income from continuing operations before cumulative effect of accounting change	224	141	605	471
(Loss) income from discontinued operations, net of tax	(46)	(178)	36	(177)
Gain (loss) on disposal of discontinued operations, net of tax	6	(22)	1	(22)
Income (loss) before cumulative effect of accounting change	184	(59)	642	272
Cumulative effect of accounting change				(432)
Net income (loss)	\$ 184	\$ (59)	\$ 642	\$ (160)
Weighted average common shares outstanding, in millions	183.00	113.07	182.87	112.45
Basic earnings (loss) per common share				
Continuing operations	\$ 1.22	\$ 1.19	\$ 3.24	\$ 4.03
Discontinued operations	(.25)	(1.57)	.20	(1.58)
Disposal of discontinued operations	.03	(.20)		(.20)
Before cumulative effect of accounting change	1.00	(.58)	3.44	2.25
Cumulative effect of accounting change				(3.83)
Basic earnings (loss) per common share	\$ 1.00	\$ (.58)	\$ 3.44	\$ (1.58)
Diluted earnings (loss) per share				
Continuing operations	\$ 1.21	\$ 1.17	\$ 3.21	\$ 3.96
Discontinued operations	(.24)	(1.54)	.20	(1.55)
Disposal of discontinued operations	.03	(.19)		(.19)
Before cumulative effect of accounting change	1.00	(.56)	3.41	2.22
Cumulative effect of accounting change				(3.78)
Diluted earnings (loss) per share	\$ 1.00	\$ (.56)	\$ 3.41	\$ (1.56)
Dividends per common share	\$ .40	\$ .40	\$ 1.20	\$ 1.20
Dividends per mandatorily redeemable preferred share	\$ 1.75	\$ 1.75	\$ 5.25	\$ 5.25

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

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

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

*Nine months ended September 30, \$ in millions*

	2003	2002
<b>Paid-in Capital</b>		
At beginning of year	\$ 12,511	\$ 4,451
Stock issued in purchase of businesses		308
Common stock repurchased	(47)	
Employee stock awards and options exercised, net of tax benefit	64	111
	12,528	4,870
<b>Retained Earnings</b>		
At beginning of year	2,870	3,011
Net income (loss)	642	(160)
Cash dividends	(232)	(154)
	3,280	2,697
<b>Unearned Compensation</b>		
At beginning of year	(11)	(18)
Amortization of unearned compensation	4	5
	(7)	(13)
<b>Accumulated Other Comprehensive Loss</b>		
At beginning of year	(1,048)	(53)
Change in cumulative translation adjustment	10	(1)
	(1,038)	(54)
<b>Total shareholders' equity</b>	<b>\$ 14,763</b>	<b>\$ 7,500</b>

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

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)**
*Nine months ended September 30, \$ in millions*
**2003**
**2002**
**Operating Activities**
**Sources of Cash—Continuing Operations**
**Cash received from customers**

Progress payments

**\$ 5,115**
**\$ 4,484**

Other collections

**13,824**
**8,147**

Interest received

**15**
**64**

Proceeds from litigation settlement

**25**
**54**

Income tax refunds received

**49**
**21**

Other cash receipts

**Cash provided by operating activities**
**19,028**
**12,990**
**Uses of Cash—Continuing Operations**

Cash paid to suppliers and employees

**17,222**
**11,637**

Interest paid

**490**
**333**

Income taxes paid

**1,128**
**107**

Payments for litigation settlements

**191**
**15**

Other cash payments

**28**
**15**
**Cash used in operating activities**
**19,059**
**12,092**

Cash (used in) provided by continuing operations

**(31)**
**898**

Cash provided by discontinued operations

**56**
**34**
**Net cash provided by operating activities**
**25**
**932**
**Investing Activities**

Proceeds from sale of businesses, net of cash divested

**3,430**

Payment for businesses purchased, net of cash acquired

**(66)**
**(169)**

Additions to property, plant and equipment

**(400)**
**(282)**

Proceeds from sale of property, plant and equipment

**50**
**28**

Other investing activities, net

**(46)**
**33**

Discontinued operations

**(72)**
**(8)**
**Net cash provided by (used in) investing activities**
**2,896**
**(398)**
**Financing Activities**

Borrowings under lines of credit

**758**
**508**

Repayment of borrowings under lines of credit

**(257)**
**(494)**

Principal payments of long-term debt/capital leases

**(3,792)**
**(472)**

Common stock repurchases

**(7)**

Proceeds from issuance of stock

**16**
**74**

Dividends paid

**(232)**
**(154)**

Redemption of minority interest

**(117)**

Discontinued operations

**(343)**
**2**
**Net cash used in financing activities**
**(3,974)**
**(536)**

Decrease in cash and cash equivalents

**(1,053)**
**(2)**

Cash and cash equivalents balance at beginning of period

**1,412**
**464**
**Cash and cash equivalents balance at end of period**
**\$ 359**
**\$ 462**

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**
*Nine months ended September 30, \$ in millions*
**2003**
**2002**
**Reconciliation of Income from Continuing Operations before Cumulative Effect of Accounting Change to Net**
**Cash Provided by Operating Activities:**

Income from continuing operations before cumulative effect of accounting change	\$ 605	\$ 471
Adjustments to reconcile to net cash (used in) provided by operating activities		
Depreciation	336	253
Amortization of intangible assets	171	112
Common stock issued to employees	49	38
Gain on disposals of property, plant and equipment		(2)
Amortization of long-term debt premium	(40)	(2)
(Increase) decrease in		
Accounts receivable	(4,349)	(3,377)
Inventoried costs	55	(256)
Prepaid expenses and other current assets	(4)	(14)
Increase (decrease) in		
Progress payments	4,172	3,914
Accounts payable and accruals	(490)	(132)
Provisions for contract losses	13	(152)
Deferred income taxes	339	(514)
Income taxes payable	(1,189)	647
Retiree benefits	319	(116)
Other noncash transactions	(18)	28
Cash (used in) provided by continuing operations	(31)	898
Cash provided by discontinued operations	56	34
Net cash provided by operating activities	\$ 25	\$ 932

**Noncash Investing and Financing Activities:**

Conversion of debt to equity		\$ 3
Sale of business		
Note receivable, net of discount	\$ 455	
Investment in unconsolidated affiliate	170	
Purchase of businesses		
Fair value of assets acquired	\$ 72	\$ 764
Cash paid	(66)	(169)
Common stock issued		(308)
Liabilities assumed	\$ 6	\$ 287

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

**Basis of Presentation**

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

The accompanying unaudited consolidated condensed financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the Notes to Consolidated Financial Statements and Independent Auditors' Report contained in the company's 2002 Annual Report.

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 our long-standing practice to establish actual interim closing dates using a "fiscal" calendar, which requires our businesses to close their books on a Friday, 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. The fiscal closing calendar from 1998 through 2008 is available on our website, [www.northropgrumman.com](http://www.northropgrumman.com) on the investor relations page under financial reports.

**Financial Statement Reclassification**

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

**Earnings per Share**

Basic earnings per share from continuing operations before cumulative effect of accounting change are calculated by dividing income available to common shareholders from continuing operations before cumulative effect of accounting change by the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Through June 30, 2003, income available to common shareholders from continuing operations before cumulative effect of accounting change is calculated by reducing income from continuing operations before cumulative effect of accounting change by the amount of dividends accrued on mandatorily redeemable preferred stock. Effective July 1, 2003, the company adopted Statement of Financial Accounting Standards (SFAS) No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Upon adoption of this standard, mandatorily redeemable preferred stock is reported as a long-term liability in the accompanying consolidated condensed statements of financial position. In addition, the dividends accrued on mandatorily redeemable preferred stock for the second half of 2003 are being recorded as interest expense in the accompanying consolidated condensed statements of operations and are therefore already deducted from income from continuing operations before cumulative effect of accounting change. Since these dividends are not tax-deductible, this change has had no effect on the earnings per share calculation. This standard is required to be adopted on a prospective basis, and accordingly no restatement of prior periods has been made. Diluted earnings per share from continuing operations before cumulative effect of accounting change reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans and the dilutive effect of the equity security units as applicable. Shares issuable pursuant to mandatorily redeemable preferred stock have not been included in the diluted earnings per share calculation because their effect is currently anti-dilutive.



**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

Basic and diluted earnings per share from continuing operations before cumulative effect of accounting change are calculated as follows:

<i>\$ in millions, except per share</i>	2003	Three months ended September 30, 2002	2003	Nine months ended September 30, 2002
<b>Basic Earnings per Share</b>				
Income from continuing operations before cumulative effect of accounting change	\$ 224	\$ 141	\$ 605	\$ 471
Less preferred dividends		6	12	18
Income available to common shareholders from continuing operations before cumulative effect of accounting change	\$ 224	\$ 135	\$ 593	\$ 453
Weighted-average common shares outstanding, in millions	183.00	113.07	182.87	112.45
<b>Basic earnings per share from continuing operations before cumulative effect of accounting change</b>	<b>\$ 1.22</b>	<b>\$ 1.19</b>	<b>\$ 3.24</b>	<b>\$ 4.03</b>
<b>Diluted Earnings per Share</b>				
Income from continuing operations before cumulative effect of accounting change	\$ 224	\$ 141	\$ 605	\$ 471
Less preferred dividends		6	12	18
Income available to common shareholders from continuing operations before cumulative effect of accounting change	\$ 224	\$ 135	\$ 593	\$ 453
Weighted-average common shares outstanding, in millions	183.00	113.07	182.87	112.45
Dilutive effect of stock options, awards and equity security units, in millions	1.51	2.14	1.51	1.96
Weighted-average diluted shares outstanding, in millions	184.51	115.21	184.38	114.41
<b>Diluted earnings per share from continuing operations before cumulative effect of accounting change</b>	<b>\$ 1.21</b>	<b>\$ 1.17</b>	<b>\$ 3.21</b>	<b>\$ 3.96</b>

**Goodwill and Other Purchased Intangible Assets**

The company accounts for goodwill under the impairment-only approach prescribed by SFAS No. 142 – *Goodwill and Other Intangible Assets*. Impairment tests are performed at least annually and more often as circumstances require. Goodwill and other purchased intangible assets balances are included in the identifiable assets of the segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment’s operating margin. The annual impairment test for all sectors except Mission Systems and Space Technology was performed as of April 30, 2003, with no indication of impairment. Mission Systems and Space Technology will be tested in the fourth quarter of 2003, upon completion of the final purchase price allocation as further discussed in the “Acquisitions” footnote contained herein.

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003, are as follows:

<i>\$ in millions</i>	Balance as of December 31, 2002	Goodwill acquired	Fair value adjustments to net assets acquired	Balance as of September 30, 2003
Electronic Systems	\$ 2,557	\$	\$ 42	\$ 2,599
Ships	3,635			3,635
Information Technology	1,117	5		1,122
Mission Systems	3,705	39	1,931	5,675
Integrated Systems	938			938
Space Technology	3,705		(273)	3,432
<b>Total</b>	<b>\$ 15,657</b>	<b>\$ 44</b>	<b>\$ 1,700</b>	<b>\$ 17,401</b>

In connection with the acquisition of TRW Inc. (TRW), the company has allocated \$416 million of the purchase price as purchased intangible assets with a weighted average life of 8 years. See the "Acquisitions" footnote contained herein for additional information. The table below summarizes the company's aggregate purchased intangible assets as of September 30, 2003, and December 31, 2002.

<i>\$ in millions</i>	September 30, 2003			December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 2,587	\$ (879)	\$ 1,708	\$ 3,253	\$ (714)	\$ 2,539
Other purchased intangibles	110	(52)	58	60	(46)	14
<b>Total</b>	<b>\$ 2,697</b>	<b>\$ (931)</b>	<b>\$ 1,766</b>	<b>\$ 3,313</b>	<b>\$ (760)</b>	<b>\$ 2,553</b>

All of 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 22 years. Aggregate amortization expense for the three months and nine months ended September 30, 2003, was \$57 million and \$171 million, respectively.

The table below shows expected amortization for the remainder of 2003 and for the next five years:

<i>\$ in millions</i>	
<b>Year Ended December 31</b>	
2003 (October 1 to December 31)	\$ 57
2004	226
2005	217
2006	129
2007	116
2008	108

**Discontinued Operations**

The company's Consolidated Condensed Financial Statements and related footnote disclosures reflect the Auto and Component Technologies businesses as discontinued operations, net of applicable income taxes, for all periods presented in accordance with SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, discontinued operations includes the January and February 2003 results of TRW Automotive (Auto), the sale of

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which was completed February 28, 2003, and the results of the company's remaining Component Technologies businesses. The assets and liabilities of these remaining businesses have been reclassified as held for sale.

Proceeds received from the sale of Auto included \$3.3 billion in cash, a \$600 million face value payment-in-kind note, valued at \$455 million, and a 19.6 percent investment in the new enterprise, valued at \$170 million. The cash received was adjusted from the sale agreement amount by cash sold with the business, preliminary purchase price adjustments, and an asset retained. The payment-in-kind note matures in 2018 and bears interest at an effective yield of 11.7 percent per annum. The acquirer also assumed debt of approximately \$200 million. Final valuation of the Auto transaction will occur upon settlement of purchase price adjustments, expected to be completed in the fourth quarter of 2003, and may result in additional adjustments. The company has retained certain liabilities associated with the Auto business as well as the Aeronautical Systems business that TRW divested in 2002.

Loss from discontinued operations includes goodwill impairment losses of \$47 million and \$186 million for the three months ended September 30, 2003, and 2002, respectively. The company reported an estimated after-tax loss of \$22 million for the third quarter of 2002, which considered only those businesses that may be sold for a loss. Gains realized on the sale of any of these businesses are reported in the period in which their divestiture is complete.

In the third quarter of 2003, the company completed the sale of Life Support and entered into an agreement to sell Poly-Scientific, two of the discontinued Component Technologies businesses. The company also concluded negotiations and entered into an agreement to sell its 51 percent interest in the operations of TRW Koyo Steering Systems Company (TKS), formerly a joint venture of TRW and Koyo Seiko Ltd. The company completed the sale of Poly-Scientific and TKS in the fourth quarter of 2003.

Operating results of the discontinued businesses for the three months and nine months ended September 30, 2003, and 2002, respectively, are as follows:

<i>\$ in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Sales	\$ 167	\$ 165	\$ 2,391	\$ 485
(Loss) income from discontinued operations	\$ (44)	\$ (175)	\$ 82	\$ (173)
Income tax expense	(2)	(3)	(46)	(4)
(Loss) income from discontinued operations, net of tax	\$ (46)	\$ (178)	\$ 36	\$ (177)
Gain (loss) on disposal of discontinued operations	\$ 18	\$ (34)	\$ 10	\$ (34)
Income tax (expense) benefit	(12)	12	(9)	12
Gain (loss) on disposal of discontinued operations, net of tax	\$ 6	\$ (22)	\$ 1	\$ (22)

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The major classes of assets and liabilities for the discontinued businesses at September 30, 2003, and December 31, 2002, were as follows:

<i>\$ in millions</i>	<b>September 30, 2003</b>	<b>December 31, 2002</b>
Current assets	<b>\$ 157</b>	<b>\$ 2,161</b>
Net property, plant and equipment	<b>141</b>	<b>2,799</b>
Goodwill	<b>35</b>	<b>4,117</b>
Miscellaneous other assets	<b>53</b>	<b>544</b>
Assets of businesses held for sale	<b>\$ 386</b>	<b>\$ 9,621</b>
Accounts payable and other current liabilities	<b>\$ 102</b>	<b>\$ 2,661</b>
Long-term debt	<b>1</b>	<b>229</b>
Other long-term liabilities	<b>49</b>	<b>1,703</b>
Liabilities of businesses held for sale	<b>\$ 152</b>	<b>\$ 4,593</b>

**Acquisitions**

In December 2002, the company purchased 100 percent of the common stock of TRW. TRW's defense business units are operated as two separate segments, Mission Systems and Space Technology. TRW's Auto business units were sold on February 28, 2003. See the "Discontinued Operations" footnote contained herein for additional information. The TRW acquisition is accounted for using the purchase method of accounting. Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with the excess recorded as goodwill. The financial statements reflect preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of purchase price and preliminary estimates of adjustments necessary to conform TRW to the company's accounting policies. The company is currently reviewing preliminary accounting conformance adjustments and preliminary estimates of the fair market value of assets acquired and liabilities assumed, including valuations associated with certain contracts, debt, environmental and other legal contingencies, restructuring activities, warranty liabilities, income taxes, property, plant and equipment, retiree benefits assets and liabilities, and any purchase price adjustments and retained liabilities associated with the Auto and Aeronautical Systems divestitures. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ significantly from the amounts included in the financial statements contained in this Form 10-Q. Adjustments to the purchase price allocations of TRW are expected to be finalized in the fourth quarter of 2003 and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**
**Segment Information**

The table below presents segment operating information for the three months and nine months ended September 30, 2003, and 2002, respectively.

<i>\$ in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
<b>Net Sales</b>				
Electronic Systems	\$ 1,522	\$ 1,311	\$ 4,372	\$ 3,811
Ships	1,366	1,101	3,946	3,335
Information Technology	1,198	1,098	3,445	3,063
Mission Systems	1,021		3,033	
Integrated Systems	974	807	2,778	2,443
Space Technology	742		2,123	
Intersegment eliminations	(204)	(103)	(585)	(276)
<b>Total net sales</b>	<b>\$ 6,619</b>	<b>\$ 4,214</b>	<b>\$ 19,112</b>	<b>\$ 12,376</b>
<b>Operating Margin</b>				
Electronic Systems	\$ 162	\$ 73	\$ 431	\$ 272
Ships	83	50	181	202
Information Technology	74	91	203	182
Mission Systems	66		196	
Integrated Systems	92	84	302	277
Space Technology	53		140	
<b>Total segment operating margin</b>	<b>530</b>	<b>298</b>	<b>1,453</b>	<b>933</b>
Adjustments to reconcile to total operating margin:				
Unallocated expenses	(17)	(30)	(69)	(83)
Pension (expense) income	(143)	22	(423)	68
Reversal of CAS pension expense included above	64	25	201	74
Reversal of royalty income included above	(3)	(2)	(12)	(12)
<b>Total operating margin</b>	<b>\$ 431</b>	<b>\$ 313</b>	<b>\$ 1,150</b>	<b>\$ 980</b>

Pension expense is included in determining the sectors' operating margin to the extent that the cost is currently recognized under government Cost Accounting Standards (CAS). In order to reconcile from segment operating margin to total company operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above." Total pension income or expense determined under Generally Accepted Accounting Principles (GAAP) is reported separately as a reconciling item under the caption "Pension (expense) income." The reconciling item captioned "Unallocated expenses" includes the portion of corporate expenses, state tax provisions and other retiree benefit expenses that are not allocated to the segments.

In the third quarter of 2003, the company settled two civil False Claims Act cases, Newport News Shipbuilding, Inc. and Jordan, and recorded loss provisions for settlement offers on other legal matters, resulting in a net gain of \$17 million, which is included in the line captioned "Unallocated expenses." The two settled cases required payments by the company of approximately \$80 million.

The \$60 million settlement amount allocated by the plaintiff to the Newport News Shipbuilding, Inc. case was charged to an existing reserve established for the government's claim that Newport News had improperly charged certain independent research and development costs to its government contracts with respect to the years

## NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

1994 through 1999. As previously reported, the government filed a civil False Claims Act case against the company in February 2003 seeking single damages in excess of \$72 million, plus penalties, costs and interest. A reserve amount for this matter was determined in accordance with SFAS No. 5 – *Accounting for Contingencies*, after considering the facts and circumstances known to management at the time, including the potential for treble damages and penalties as provided in the False Claims Act. The reserve, when established, had no effect on the company’s net income, as it was recorded as a liability on the balance sheet as part of the purchase accounting for Newport News, which was acquired in December 2001. The unused portion of the reserve, approximately \$120 million, was reversed in the third quarter and together with the third quarter loss provisions recorded for other legal matters is included in the \$17 million net gain reported in “Unallocated expenses” in the third quarter.

### Long-Term Debt

In March 2003, the company’s wholly owned subsidiary, Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), commenced offers to purchase any or all of certain designated outstanding Northrop Grumman Space & Mission Systems Corp. debt securities in a debt reduction plan substantially completed in the second quarter of 2003. In the first phase, approximately \$2.4 billion in aggregate principal amount of outstanding debt securities were tendered and accepted for purchase, for a total purchase price of approximately \$2.9 billion (including accrued and unpaid interest on the securities). In the second phase, the company purchased on the open market \$655 million in aggregate principal amount for a total purchase price of \$792 million (including accrued and unpaid interest on the securities). Cash proceeds from the sale of Auto were used to complete these transactions, which contributed to the reduction of long-term debt to \$6.3 billion at September 30, 2003, from the \$9.4 billion reported at December 31, 2002.

Long-term debt at September 30, 2003, and December 31, 2002, consisted of the following:

<i>\$ in millions</i>	September 30, 2003	December 31, 2002
Notes and debentures due 2003 to 2036, rates from 6.05% to 12.36%	\$ 5,098	\$ 8,772
Equity security unit notes due 2006, 7.25%	690	690
Revolving credit facility, weighted average interest rate of 1.95%	500	
Other indebtedness due 2004 to 2024, rates from 7.0% to 8.5%	101	139
	6,389	9,601
Less current portion	122	203
	\$ 6,267	\$ 9,398

### Litigation, Commitments and Contingencies

The company is subject to a range of claims, lawsuits, environmental matters and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and its internal and external legal counsel. In accordance with SFAS No. 5 – *Accounting for Contingencies*, amounts are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to the company may vary from earlier estimates as further facts and circumstances become known. Based upon available information, it is the company’s expectation that known legal actions are either without merit or will have no material adverse effect on the company’s results of operations or financial position. For newly acquired businesses, management applies judgment in estimating the fair value of liabilities assumed, including those related to claims, lawsuits, environmental matters and administrative proceedings, as part of its purchase accounting activities. While the company cannot predict the ultimate outcome of these matters, resolution of one or more of these matters individually or in the aggregate is not expected to have a material effect on the company’s financial position or results of operations, but resolution of these matters may have a material effect on cash flows.

## NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

The company, as a government contractor, is from time to time subject to U. S. Government investigations relating to its operations. Government contractors that are found to have violated the False Claims Act, or are indicted or convicted for violations of other federal laws, or are considered not to be responsible contractors may be suspended or debarred from government contracting for some period of time. Such convictions could also result in fines. Given the company's dependence on government contracting, suspension or debarment could have a material adverse effect on the company.

U.S. ex rel. Bagley v. TRW Inc., previously reported in the company's public filings, has been settled for \$111.2 million. The settlement payment was made in July 2003. The company reviewed this case in preparation for the acquisition of TRW Inc. and it was accounted for as part of the acquisition. As such, the settlement did not have an effect on the company's results of operations. The relator's claim for attorneys' fees was resolved in the third quarter and the entire action was dismissed with prejudice.

As previously reported, on February 3, 2003, the Department of Justice filed a civil False Claims Act case against Newport News Shipbuilding, Inc. in the United States District Court for the Eastern District of Virginia in U.S. v. Newport News Shipbuilding, Inc. The government sought single damages in an amount in excess of \$72 million, plus penalties, costs and interest. Damages could have been trebled under the False Claims Act. The complaint alleged that the company improperly charged certain independent research and development costs to its government contracts with respect to the years 1994 through 1999. In August 2003, the parties settled this and another matter for \$80 million. The plaintiff allocated \$60 million to the settlement of the Newport News Shipbuilding, Inc. matter. The settlement payment was made in August 2003.

### Preferred Share Purchase Rights

In the third quarter 2003, the company amended its preferred share purchase rights plan. The plan will expire at midnight on December 31, 2003.

### Stock-Based Compensation

The company applies Accounting Principles Board Opinion 25 – *Accounting for Stock Issued to Employees* and related Interpretations in accounting for awards made under the company's stock-based compensation plans. When stock options are exercised, the amount of the cash proceeds to the company is recorded as an increase to paid-in capital, net of tax benefit. Compensation expense for restricted performance stock rights is estimated and accrued over the vesting period.

Had compensation expense been determined based on the fair value at the grant dates for stock option awards, consistent with the method of SFAS No. 123 – *Accounting for Stock Based Compensation*, net income (loss), basic earnings (loss) per share, and diluted earnings (loss) per share would have been as shown in the table below.

\$ in millions, except per share	Three months ended		Nine months ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Net income (loss) as reported	\$ 184	\$ (59)	\$ 642	\$ (160)
Stock-based compensation, net of tax, included in net income as reported	18	7	39	22
Stock-based compensation, net of tax, that would have been included in net income, if the fair value method had been applied to all awards	(26)	(13)	(62)	(36)
Pro-forma net income (loss) using the fair value method	\$ 176	\$ (65)	\$ 619	\$ (174)
Basic earnings (loss) per share				
As reported	\$ 1.00	\$ (.58)	\$ 3.44	\$ (1.58)
Pro-forma	\$ .96	\$ (.63)	\$ 3.32	\$ (1.71)
Diluted earnings (loss) per share				
As reported	\$ 1.00	\$ (.56)	\$ 3.41	\$ (1.56)
Pro-forma	\$ .95	\$ (.61)	\$ 3.29	\$ (1.68)

These amounts were determined using weighted-average per share fair values for market options granted in 2003 and 2002 of \$31 and \$31, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on an expected life of six years and for the three months and nine months ended September 30, 2003 and 2002, respectively, and the following additional assumptions: dividend yield, 1.7 percent and 1.5 percent; expected volatility, 35 percent and 34 percent; and risk-free interest rate, 3.2 percent and 3.6 percent.

**Minority Interest**

As of December 31, 2002, TRW Automotive Inc. (TAI) had outstanding 100,000 shares of Series A Convertible Preferred Stock (TAI Series A) and 30,000 shares of Series B Preferred Stock (TAI Series B), of which 14,000 shares were owned by Northrop Grumman. All of the outstanding TAI Series A and TAI Series B shares were redeemed in the second quarter of 2003 for \$117 million.

**New Accounting Pronouncements**

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity*. It requires an issuer to classify certain financial instruments as liabilities and assets in defined circumstances. This statement was adopted July 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149 – *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which clarifies and amends certain definitions and characteristics of derivative instruments contained in SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, FASB Interpretation No. 45 – *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and other existing pronouncements. Adoption of this statement will not have a significant effect on the company's financial position, results of operations or cash flows.

In January 2003, the Emerging Issues Task Force (EITF) published EITF Issue 00-21 – *Revenue Arrangements with Multiple Deliverables*, which provides guidance on how to recognize revenue in certain arrangements with multiple deliverables. This issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Adoption of EITF 00-21 did not have a significant effect on the company's financial position, results of operations or cash flows.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 46 – *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51. This interpretation explains how to identify variable interest entities (VIE's) and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. FIN 46 became effective immediately for VIE's created after January 31, 2003. For entities created before January 31, 2003, the provisions of FIN 46 have been delayed until December 31, 2003. Presently, management does not believe that the company has interests that would be considered VIE's under FIN 46. A final determination regarding the provisions of FIN 46 will be reflected in the company's financial statements as of December 31, 2003.

In November 2002, the Financial Accounting Standards Board issued FIN 45 – *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. Application of this interpretation did not have a significant effect on the company's financial position, results of operations or cash flows.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146 – *Accounting for Costs Associated with Exit or Disposal Activities*, which requires a liability for a cost associated with an exit or disposal activity to be recognized and measured at its fair value in the period in which the liability is incurred. This statement was



adopted January 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement became effective for financial statements issued for fiscal years beginning after June 15, 2002. This statement was adopted January 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

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

The 2003 results include the operations of TRW Inc. (TRW), acquired in the fourth quarter of 2002. Operating results of the acquired TRW businesses are reported as the Mission Systems and Space Technology segments of the company. This acquisition is an important component of the increase in sales, operating margin and net income for the 2003 periods compared with those of 2002.

NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

SELECTED INDUSTRY SEGMENT INFORMATION

<i>\$ in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
<b>Net Sales</b>				
Electronic Systems	\$ 1,522	\$ 1,311	\$ 4,372	\$ 3,811
Ships	1,366	1,101	3,946	3,335
Information Technology	1,198	1,098	3,445	3,063
Mission Systems	1,021		3,033	
Integrated Systems	974	807	2,778	2,443
Space Technology	742		2,123	
Intersegment eliminations	(204)	(103)	(585)	(276)
<b>Total net sales</b>	<b>\$ 6,619</b>	<b>\$ 4,214</b>	<b>\$ 19,112</b>	<b>\$ 12,376</b>
<b>Operating Margin</b>				
<i>Segments:</i>				
Electronic Systems	\$ 162	\$ 73	\$ 431	\$ 272
Ships	83	50	181	202
Information Technology	74	91	203	182
Mission Systems	66		196	
Integrated Systems	92	84	302	277
Space Technology	53		140	
<i>Adjustments to reconcile to total operating margin:</i>				
Unallocated expenses	(17)	(30)	(69)	(83)
Pension (expense) income	(143)	22	(423)	68
Reversal of CAS pension expense included above	64	25	201	74
Reversal of royalty income included above	(3)	(2)	(12)	(12)
<b>Total operating margin</b>	<b>\$ 431</b>	<b>\$ 313</b>	<b>\$ 1,150</b>	<b>\$ 980</b>
<b>Contract Acquisitions</b>				
Electronic Systems	\$ 1,175	\$ 1,862	\$ 4,089	\$ 4,451
Ships	625	752	2,350	3,806
Information Technology	1,161	1,024	3,565	3,101
Mission Systems	950		2,955	
Integrated Systems	314	484	2,821	2,374
Space Technology	314		1,724	
Intersegment eliminations	(248)	(110)	(883)	(269)
<b>Total contract acquisitions</b>	<b>\$ 4,291</b>	<b>\$ 4,012</b>	<b>\$ 16,621</b>	<b>\$ 13,463</b>
<b>Funded Order Backlog</b>				
Electronic Systems			\$ 6,212	\$ 6,536
Ships			8,765	10,243
Information Technology			1,709	1,474
Mission Systems			2,670	
Integrated Systems			3,781	3,454
Space Technology			909	
Intersegment eliminations			(484)	(219)
<b>Total funded order backlog</b>			<b>\$ 23,562</b>	<b>\$ 21,488</b>

**Contract Acquisitions**

Contract acquisitions increased 7 percent to \$4.3 billion for the third quarter of 2003 as compared to the third quarter a year ago, and increased 23 percent to \$16.6 billion in the nine-month period of 2003 compared to the 2002 period. Growth in 2003 principally reflects inclusion of the two new segments, Mission Systems for \$950 million and \$3 billion in the third quarter and nine-month periods and Space Technology for \$314 million and \$1.7 billion in the third quarter and nine-month periods of 2003. In last year's first quarter, Ships reported contract acquisitions of \$1.8 billion resulting from the funding of *Virginia*-class submarines and refueling and overhaul of the carrier *USS Eisenhower*. The company's business backlog at September 30, 2003, increased to \$23.6 billion from \$21.5 billion reported a year earlier.

**Measures of Performance**

Sales for the third quarter of 2003 increased 57 percent to \$6.6 billion and for the nine-month period of 2003 increased 54 percent to \$19.1 billion as compared with the same periods of 2002. Sales for 2003 are expected to be between \$25.5 billion and \$26 billion. Sales by business area are outlined below. Certain prior year amounts have been reclassified to conform to the 2003 presentation.

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

<i>\$ in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
<b>Electronic Systems</b>				
Aerospace Electronic Systems	\$ 473	\$ 371	\$ 1,310	\$ 1,080
C4ISR&N	311	321	904	842
Defensive Electronic Systems	237	179	643	563
Navigation Systems	173	159	538	484
Space Systems	128	103	376	324
Other	200	178	601	518
	<b>1,522</b>	<b>1,311</b>	<b>4,372</b>	<b>3,811</b>
<b>Ships</b>				
Aircraft Carriers	462	518	1,460	1,488
Surface Combatants	405	216	1,097	596
Amphibious and Auxiliary	271	196	739	585
Submarines	157	130	449	415
Commercial and International	37	15	92	169
Services and Other	34	56	109	165
Intrasegment Eliminations		(30)		(83)
	<b>1,366</b>	<b>1,101</b>	<b>3,946</b>	<b>3,335</b>
<b>Information Technology</b>				
Government Information Technology	759	696	2,226	1,972
Enterprise Information Technology	225	195	587	500
Technology Services	175	172	517	486
Commercial Information Technology	67	54	200	160
Intrasegment Eliminations	(28)	(19)	(85)	(55)
	<b>1,198</b>	<b>1,098</b>	<b>3,445</b>	<b>3,063</b>
<b>Mission Systems</b>				
Command, Control & Intelligence	383		1,150	
Missile Systems	271		785	
Federal & Civil Information Systems	198		606	
Technical Services	179		521	
Intrasegment Eliminations	(10)		(29)	
	<b>1,021</b>		<b>3,033</b>	
<b>Integrated Systems</b>				
Air Combat Systems	644	465	1,754	1,422
Airborne Early Warning/Electronic Warfare	202	200	629	555
Airborne Ground Surveillance/Battle Management	128	140	397	466
Intrasegment Eliminations		2	(2)	
	<b>974</b>	<b>807</b>	<b>2,778</b>	<b>2,443</b>
<b>Space Technology</b>				
Intelligence, Surveillance, & Reconnaissance	221		626	
Satellite Communications	110		358	
Civil Space	145		390	
Missile Defense	100		287	
Radio Systems	106		286	
Technology	60		176	
	<b>742</b>		<b>2,123</b>	
Intersegment eliminations	(204)	(103)	(585)	(276)
<b>Total sales</b>	<b>\$ 6,619</b>	<b>\$ 4,214</b>	<b>\$ 19,112</b>	<b>\$ 12,376</b>

## NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

Sales at Electronic Systems increased 16 percent and 15 percent to \$1.5 billion and \$4.4 billion in the third quarter and nine-month periods of 2003, respectively, as compared to the same periods of 2002. Operating margin for the 2003 third quarter increased to \$162 million from \$73 million in the 2002 third quarter and increased to \$431 million in the 2003 nine-month period from \$272 million in the 2002 nine-month period. Electronic Systems results for sales and operating margin in the 2003 periods reflect increased volume in Aerospace Electronic Systems' F-16 and F-35 programs and Defensive Electronic Systems' ALQ-135 and MH-53 programs. Operating margin results for the 2002 periods included a \$65 million pre-tax charge for the F-16 Block 60 combat avionics program. For 2003, Electronic Systems sales are expected to be approximately \$6 billion with operating margin of nearly 10 percent of sales.

Ships, which includes the financial results of the Newport News and Ship Systems sectors, generated sales of \$1.4 billion and \$3.9 billion in the third quarter and nine-month periods of 2003, respectively, reflecting 24 percent and 18 percent increases, respectively, over the 2002 periods. The sales growth reflects increased revenue on the DDX program, included in the Surface Combatant business area, and on the LPD program, included in the Amphibious and Auxiliary business area. Operating margin was \$83 million for the third quarter and \$181 million for the nine-month period of 2003, compared with \$50 million for the third quarter and \$202 million for the nine-month period of 2002. The 2003 nine-month results include a second quarter pre-tax charge to operating margin of \$68 million for the commercial Polar Tanker program. Last year's third quarter operating margin reflected an \$87 million pre-tax charge to operating margin for the commercial Polar Tanker program partially offset by a \$69 million positive pre-tax adjustment for the cancelled commercial cruise ship program. Sales in 2003 are expected to be more than \$5 billion, with operating margin as a percent of sales expected to be between 5 and 5.5 percent.

Information Technology sales increased 9 percent and 12 percent to \$1.2 billion and \$3.4 billion in the third quarter and nine-month periods of 2003, respectively, as compared with the same periods of 2002. For the third quarter and nine-month periods of 2003, the sector reported operating margin of \$74 million and \$203 million, respectively, compared with \$91 million and \$182 million in the 2002 periods. Sales and operating margin in the 2003 periods reflects strong growth in the Government Information Technology and Enterprise Information Technology business areas. Last year's results included a \$20 million positive pre-tax adjustment resulting from the restructuring of a contract included in the Technology Services business area. For 2003, sales are expected to be approximately \$4.7 billion with operating margin as a percent of sales of approximately 6 percent.

Mission Systems reported 2003 third quarter and nine-month sales of \$1 billion and \$3 billion, respectively, led by its Command, Control & Intelligence Systems and Missile Systems business areas. The segment's 2003 third quarter and year-to-date operating margins were \$66 million and \$196 million, respectively. For 2003, sales are expected to be approximately \$4 billion with operating margin as a percent of sales of slightly more than 6 percent.

Sales for Integrated Systems increased 21 percent to \$1 billion in the third quarter of 2003 and increased 14 percent to \$2.8 billion in the 2003 nine-month period compared to the 2002 period primarily due to increased F-35 and Global Hawk sales. Operating margin for the 2003 third quarter increased 10 percent compared with the 2002 period, principally reflecting increased E-2C and B-2 operating margin partially offset by lower Joint STARS operating margin. Nine-month 2003 operating margin increased 9 percent to \$302 million compared with the 2002 period reflecting increased Global Hawk and E-2C operating margin partially offset by lower Joint STARS operating margin due to reduced volume. For 2003, sales are expected to be approximately \$3.8 billion with operating margin as a percent of sales expected to be between 9.5 and 10 percent.

Sales for Space Technology for the 2003 third quarter and nine-month periods totaled \$742 million and \$2.1 billion, respectively, led by its Intelligence, Surveillance & Reconnaissance business area. The sector's operating margin for the third quarter and nine-month periods of 2003 were \$53 million and \$140 million, respectively. For 2003, sales are expected to be approximately \$2.8 billion with operating margin as a percent of sales of approximately 6.5 percent.

Total operating margin for the 2003 third quarter and nine-month periods increased to \$431 million and \$1.2 billion, respectively, from \$313 million and \$1 billion in the same periods a year ago. The 2003 results reflect contributions from the company's two new operating segments, Mission Systems and Space Technology, and growth at its Electronic Systems, Ships and Integrated Systems sectors.

## NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

In the third quarter of 2003, the company settled two civil False Claims Act cases, Newport News Shipbuilding, Inc. and Jordan, and recorded loss provisions for settlement offers on other legal matters, resulting in a net gain of \$17 million, which is included in the line captioned "Unallocated expenses". The two settled cases required payments by the company of approximately \$80 million.

The \$60 million settlement amount allocated by the plaintiff to the Newport News Shipbuilding, Inc. case was charged to an existing reserve established for the government's claim that Newport News had improperly charged certain independent research and development costs to its government contracts with respect to the years 1994 through 1999. As previously reported, the government filed a civil False Claims Act case against the company in February 2003 seeking single damages in excess of \$72 million, plus penalties, costs and interest. A reserve amount for this matter was determined in accordance with SFAS No. 5 – *Accounting for Contingencies*, after considering the facts and circumstances known to management at the time, including the potential for treble damages and penalties as provided in the False Claims Act. The reserve, when established, had no effect on the company's net income, as it was recorded as a liability on the balance sheet as part of the purchase accounting for Newport News, which was acquired in December 2001. The unused portion of the reserve, approximately \$120 million, was reversed in the third quarter and together with the third quarter loss provisions recorded for other legal matters is included in the \$17 million net gain reported in "Unallocated expenses" in the third quarter.

Operating margin included \$143 million and \$423 million of pension expense in the third quarter and nine-month periods of 2003, respectively, compared with \$22 million and \$68 million of pension income reported in the 2002 periods. Pension expense for 2003 is expected to total approximately \$560 million. Total pension income or expense determined under Generally Accepted Accounting Principles (GAAP) is reported separately as a reconciling item in the table "Selected Industry Segment Information" under the caption "Pension (expense) income." Pension expense is included in determining the sectors' operating margin to the extent that the cost is currently recognized under government Cost Accounting Standards (CAS). In the adjustments to reconcile to total company operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above" and for the year 2003 are estimated to be approximately \$275 million.

The increase in interest income for the 2003 periods as compared to the 2002 periods principally reflects earnings from the note received in connection with the sale of Auto and interest earned on a tax refund received in the first quarter of 2003. Interest income for the year 2003 is expected to be approximately \$60 million.

Interest expense for the third quarter and nine-month periods of 2003 increased to \$118 million and \$381 million, respectively, from \$106 million and \$320 million reported in the 2002 periods principally as a result of increased debt levels arising from the acquisition of TRW, net of the effect of the company's debt reduction plan which was substantially completed in the second quarter of 2003. Dividends payable on mandatorily redeemable preferred stock are also treated as interest expense resulting from adoption of SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which became effective for periods ending after June 15, 2003. Interest expense for the year 2003 is expected to be approximately \$500 million.

The company's effective tax rate in the third quarter of 2003 was 30.9 percent compared to 28.8 percent in the 2002 period. During the first quarter of 2003, the company recorded a \$26 million tax credit for additional research tax credits resulting in a 2003 nine-month effective tax rate of 27.7 percent as compared to 30.2 percent in the 2002 nine-month period. The effective tax rate is expected to be approximately 31 percent for the remainder of 2003, resulting in a rate of approximately 28 percent for the entire year.

The company also reported after-tax losses from discontinued operations of \$46 million, including a goodwill impairment charge of \$47 million, and \$178 million, including a goodwill impairment charge of \$186 million, in the third quarters of 2003 and 2002, respectively. Discontinued operations generated income of \$36 million for the nine-month period of 2003 and a loss of \$177 million in the nine-month period of 2002.

Net income for the third quarter and nine-month periods of 2003 was \$184 million and \$642 million, respectively, or \$1.00 and \$3.41 per diluted share, compared to losses of \$59 million and \$160 million, or \$(.56) and \$(1.56) per diluted share, for the same periods of 2002. Third quarter and nine-months 2003 diluted earnings per share are based on weighted average diluted shares outstanding of 184.51 million and 184.38 million, respectively, as compared to 115.21 million and 114.41 million in the respective 2002 periods. Results reflected in the nine-month period of 2002 include a first quarter 2002 charge of \$432 million for the cumulative effect of an accounting change recorded upon adoption of SFAS No. 142 – *Goodwill and Other Intangible Assets*.

**Discontinued Operations**

The company's Consolidated Condensed Financial Statements and related footnote disclosures reflect the Auto and Component Technologies businesses as discontinued operations, net of applicable income taxes, for all periods presented in accordance with SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, discontinued operations includes the January and February 2003 results of TRW Automotive (Auto), the sale of which was completed February 28, 2003, and the results of the company's remaining Component Technologies businesses. The assets and liabilities of these businesses have been reclassified as held for sale.

Proceeds received from the sale of Auto included \$3.3 billion in cash, a \$600 million face value payment-in-kind note, valued at \$455 million, and a 19.6 percent investment in the new enterprise, valued at \$170 million. The cash received was adjusted from the sale agreement amount by cash sold with the business, preliminary purchase price adjustments, and an asset retained. The payment-in-kind note matures in 2018 and bears interest at an effective yield of 11.7 percent per annum. The acquirer also assumed debt of approximately \$200 million. Final valuation of the Auto transaction will occur upon settlement of purchase price adjustments, expected to be completed in the fourth quarter of 2003, and may result in additional adjustments. The company has retained certain liabilities associated with the Auto business as well as the Aeronautical Systems business that TRW divested in 2002.

In the third quarter of 2003, the company completed the sale of Life Support and entered into an agreement to sell Poly-Scientific, two of the discontinued Component Technologies businesses. The company also concluded negotiations and entered into an agreement to sell its 51 percent interest in the operations of TRW Koyo Steering Systems Company (TKS), formerly a joint venture of TRW and Koyo Seiko Ltd. The company completed the sale of Poly-Scientific and TKS in the fourth quarter of 2003.

**TRW Acquisition**

The TRW acquisition is accounted for using the purchase method of accounting. Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with the excess recorded as goodwill. The financial statements reflect preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of purchase price and preliminary estimates of adjustments necessary to conform TRW to the company's accounting policies. The company is currently reviewing preliminary accounting conformance adjustments and preliminary estimates of the fair market value of assets acquired and liabilities assumed, including valuations associated with certain contracts, debt, environmental and other legal contingencies, restructuring activities, warranty liabilities, income taxes, property, plant, and equipment, retiree benefits assets and liabilities, and any purchase price adjustments and retained liabilities associated with the Auto and Aeronautical Systems divestitures. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ significantly from the amounts included in the financial statements contained in this Form 10-Q. Adjustments to the purchase price allocations of TRW are expected to be finalized in the fourth quarter of 2003 and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

**Liquidity and Capital Resources**

In the nine-month period of 2003, the company generated cash from operations of \$25 million, compared with cash generated of \$932 million in the nine-month period of 2002. At September 30, 2003, net working capital deficit was \$101 million, which is the result of normal fluctuations in timing of receipts and disbursements. In 2003, cash used in operations reflects \$1 billion of taxes paid upon completion of the B-2 EMD contract. The IRS is presently completing its audits of the B-2 program for the tax years ended December 31, 1997, through December 31, 2000. Upon completion of these audits, the IRS may adopt a position that the B-2 program was completed in a year prior to 2002, which would create the potential for additional interest expense. Although it is not possible to predict the outcome of the tax audits at this time, management believes that its tax accounting for

## NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES

the B-2 program reflects the appropriate timing of contract completion. Presently, the IRS has not commenced its audits for tax years ended December 31, 2001 or 2002.

In March 2003, the company's wholly owned subsidiary, Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), commenced offers to purchase any or all of certain designated outstanding Northrop Grumman Space & Mission Systems Corp. debt securities in a debt reduction plan substantially completed in the second quarter of 2003. In the first phase, approximately \$2.4 billion in aggregate principal amount of outstanding debt securities had been tendered and accepted for purchase, for a total purchase price of approximately \$2.9 billion (including accrued and unpaid interest on the securities). In the second phase, the company purchased on the open market \$655 million in aggregate principal amount for a total purchase price of \$792 million (including accrued and unpaid interest on the securities) of Northrop Grumman Space & Mission Systems Corp. debt securities. Cash proceeds from the sale of Auto were used to complete these transactions, which contributed to the reduction of long-term debt to \$6.3 billion at September 30, 2003, from the \$9.4 billion reported at December 31, 2002.

During the third quarter of 2003, the company made litigation settlement payments totaling \$191 million. The company redeemed all outstanding shares of TRW Automotive Inc. Series A Convertible Preferred Stock and Series B Preferred Stock for \$117 million during the second quarter of 2003.

In the third quarter of 2003, the company approved a share repurchase program of up to \$700 million of its outstanding common stock. Share purchases will take place at management's discretion from time to time, depending on market conditions, in the open market and in privately negotiated transactions through the end of 2004. Through October 2003 the company had repurchased 550,000 shares for \$47 million.

For the remainder of 2003, cash generated from operations supplemented by borrowings under credit facilities are expected to be sufficient to service debt, finance capital expenditures and continue paying dividends to the company's shareholders.

### Critical Accounting Policies

The company's financial statements are in conformity with GAAP. The preparation thereof requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

There have been no changes in the company's critical accounting policies during the nine months ended September 30, 2003.

### Financial Accounting Standards

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity*. It requires an issuer to classify certain financial instruments as liabilities and assets in defined circumstances. This statement was adopted July 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149 – *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which clarifies and amends certain definitions and characteristics of derivative instruments contained in SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, FASB Interpretation No. 45 – *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* and other existing pronouncements. Adoption of this statement will not have a significant effect on the company's financial position, results of operations or cash flows.

In January 2003, the Emerging Issues Task Force (EITF) published EITF Issue 00-21 – *Revenue Arrangements with Multiple Deliverables*, which provides guidance on how to recognize revenue in certain arrangements with multiple deliverables. This issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Adoption of EITF 00-21 did not have a significant effect on the company's financial position, results of operations or cash flows.



In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 46 – *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51. This interpretation explains how to identify variable interest entities (VIE's) and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. FIN 46 became effective immediately for VIE's created after January 31, 2003. For entities created before January 31, 2003, the provisions of FIN 46 have been delayed until December 31, 2003. Presently, management does not believe that the company has interests that would be considered VIE's under FIN 46. A final determination regarding the provisions of FIN 46 will be reflected in the company's financial statements as of December 31, 2003.

In November 2002, the Financial Accounting Standards Board issued FIN 45 – *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. Application of this interpretation did not have a significant effect on the company's financial position, results of operations or cash flows.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146 – *Accounting for Costs Associated with Exit or Disposal Activities*, which requires a liability for a cost associated with an exit or disposal activity to be recognized and measured at its fair value in the period in which the liability is incurred. This statement was adopted January 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement became effective for financial statements issued for fiscal years beginning after June 15, 2002. This statement was adopted January 1, 2003, and did not have a significant effect on the company's financial position, results of operations or cash flows.

**Forward-Looking Information**

Certain statements and assumptions in this Management's Discussion and Analysis and elsewhere in this Quarterly Report on Form 10-Q contain or are based on "forward-looking" information (that Northrop Grumman believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risks and uncertainties, and include, among others, statements in the future tense, and all statements accompanied by terms such as "project," "expect," "estimate," "assume," or variations thereof. This information reflects the company's best estimates when made, but the company expressly disclaims any duty to update this information if new data becomes available or estimates change after the date of this Report.

Such "forward-looking" information is based on numerous assumptions and uncertainties, many of which are outside Northrop Grumman's control. These include Northrop Grumman's ability to successfully integrate its acquisitions, including TRW, to realize the preliminary estimates for accounting conformance and purchase accounting valuations for TRW which will be finalized in the 2003 fourth quarter and which may materially vary from these estimates, assumptions with respect to future revenues, expected program performance and cash flows, returns on pension plan assets and variability of pension actuarial and related assumptions, the outcome of litigation and appeals, environmental remediation, divestitures of businesses, successful reduction of debt, successful negotiation of contracts with labor unions, effective tax rates and timing and amounts of tax payments, and anticipated costs of capital investments, among other things. Northrop Grumman's operations are subject to various additional risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies; actual outcomes are dependent upon factors, including, without limitation, Northrop Grumman's successful performance of internal plans; government customers' budgetary constraints; customer changes in short-range and long-range

plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military aircraft, military and civilian electronic systems and support, information technology, naval vessels, space systems and related technologies, as well as other economic, political and technological risks and uncertainties and other risk factors set out in Northrop Grumman's filings from time to time with the Securities and Exchange Commission, including, without limitation, Northrop Grumman reports on Form 10-K and Form 10-Q.

**Item 3. Quantitative and Qualitative Disclosures About Market Risks**

The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term debt outstanding under the credit facility, short-term investments, and long-term notes receivable. At September 30, 2003, most borrowings were fixed-rate long-term debt obligations. The company's sensitivity to a 1 percent change in interest rates is tied to its \$2.5 billion credit facility, which had a balance outstanding of \$500 million at September 30, 2003. The estimated fluctuation in expense would be 1 percent of any outstanding balance. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At September 30, 2003, no interest rate swap agreements were in effect. The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. Foreign currencies are traditionally converted to U.S. dollars upon receipt to limit currency fluctuation exposures. At September 30, 2003, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure relating to foreign currency exchange to be material. The company does not hold or issue derivative financial instruments for trading purposes. Standby letters of credit are used by the company to guarantee future performance on its contracts.

As disclosed in the company's Annual Report on Form 10-K for the year ended 2002, investments in RF Micro Devices, Inc. (RFMD) and Applera Corporation-Celera Genomics Group (Celera) acquired in connection with the acquisition of TRW, and the related hedge portion of the forward share sale agreements are carried at fair market value. As of September 30, 2003, the value of the investments and the hedge were equivalent. Accordingly, no financial statement gains or losses are expected to be recorded from these agreements.

**Item 4. Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures. Registrant's principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated Registrant's disclosure controls and procedures and have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, these controls and procedures are designed to ensure that information required to be disclosed by the Registrant in this Quarterly Report on Form 10-Q is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and Form 10-Q. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Registrant in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is accumulated and communicated to Registrant's management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The principal executive officer and the principal financial officer have also concluded, based upon their evaluation, that there are no significant deficiencies or material weaknesses in these disclosure controls and procedures.
- (b) Changes in internal controls. There were no changes in the Registrant's internal controls over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have reviewed the accompanying consolidated condensed statement of financial position of Northrop Grumman Corporation and subsidiaries as of September 30, 2003, and the related consolidated condensed statements of operations for the three-month and nine-month periods ended September 30, 2003 and 2002, and the related consolidated condensed statements of cash flows and changes in shareholders' equity for the nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. 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 auditing standards generally accepted in the United States of America, 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 consolidated condensed 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 auditing standards generally accepted in the United States of America, the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 18, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2002 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  
October 29, 2003

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

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 does not believe that the resolution of any of these proceedings will have a material adverse affect upon its operations or financial condition.

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, 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. Based on available information, the company does not believe, but can give no assurance, that any matter resulting from a U.S. Government investigation would have a material adverse effect on its results of operations or financial condition. Matters described below in which the U.S. Government was a party have been disposed of.

As previously reported, in October 1999 in U.S. ex rel. Jordan v. Northrop Grumman Corporation, the company was served with a fifth amended complaint. The action was filed by the government in the United States District Court for the Central District of California in May 1995. The complaint alleged that the company violated the civil False Claims Act by knowingly supplying BQM-74C aerial target drones that contained various defective components between 1988 and 1998. The government sought to recover damages up to approximately \$210 million, plus penalties, under theories of fraud, payment by mistake, unjust enrichment, breach of warranty and breach of contract. Damages awarded pursuant to the False Claims Act may be trebled by the court. In August, 2003, the parties agreed to settle this matter for \$20 million. The case was dismissed with prejudice on September 2, 2003.

As previously reported, on February 3, 2003, the Department of Justice filed a civil False Claims Act case against Newport News Shipbuilding, Inc. in the United States District Court for the Eastern District of Virginia in U.S. v. Newport News Shipbuilding, Inc. The government sought single damages in an amount in excess of \$72 million, plus penalties, costs and interest. As noted above, damages may be trebled under the False Claims Act. The complaint alleged that the company improperly charged certain independent research and development costs to its government contracts with respect to the years 1994 through 1999. In August, 2003, the parties agreed to settle this matter for \$60 million. The case was dismissed with prejudice on September 9, 2003.

As previously reported, in July and August 1998, three shareholder derivative lawsuits, respectively encaptioned Zabielski v. Kent Kresa, et al., Harbor Finance Partners v. Kent Kresa, et al., and Clarren v. Kent Kresa, et al., were filed in the Superior Court of California for the County of Los Angeles. These lawsuits each contained similar allegations that the directors of the company and certain of its officers breached their fiduciary duties in connection with the shareholder vote approving the proposed acquisition of the company by Lockheed Martin Corporation, and that certain defendants engaged in stock trades in violation of federal and state securities laws. The lawsuits were purportedly brought on the company's behalf and did not seek relief against the company. On January 31, 2001, the State Court dismissed these actions with prejudice and plaintiffs subsequently filed a timely appeal. Oral argument took place on February 18, 2003. On October 30, 2003, the case was dismissed with prejudice by plaintiffs at no cost to the company.

**Environmental Matters**

As previously reported, on December 18, 2000, the Mississippi Department of Environmental Quality (MDEQ) delivered to the Ingalls subsidiary of Litton a notice of violation alleging use of non-compliant coatings, opacity violations and VOC emissions violations. The MDEQ subsequently requested that Ingalls, now named Northrop Grumman Ship Systems, Inc. (NGSS), perform an air permit compliance review. NGSS and the MDEQ reached agreement on the terms of a full and complete settlement of the alleged air violations. Under the Agreed Order,

## **NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES**

NGSS was required to pay \$350,000 to the MDEQ within 30 days after entry of the Order, and to expend an additional \$600,000 in capital expenditures toward implementation of an agreed upon Supplemental Environmental Project. The Agreed Order was entered on July 7, 2003. NGSS remitted the \$350,000 payment in July 2003.

On July 10, 2003, the South Coast Air Quality Management District (SCAQMD) issued a notice of violation to the Space Technology facility in Redondo Beach, California alleging sixty-four deviations from the operating conditions of an air permit. It is expected that the SCAQMD will pursue a monetary penalty.

### **Other Matters**

Like many other industrial companies in recent years, and as a result of acquisition activities, the company is a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into its premises and certain historical products. Many of these claims have been dismissed with no payment and the remaining resolved claims have involved amounts that were not material either singly or in the aggregate. Based on the information available to the company as of the date of filing of this report, the company does not believe that disposition of any or all of these matters would have a material adverse effect upon it.

All of the company's segments engage in international business, for which the company maintains a large number of sales representatives and consultants who are not employees of the company. Foreign sales by their very nature are subject to greater variability in risk than the company's domestic sales, particularly to the U.S. Government. International sales and services subject the company to numerous stringent U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. Failure by the company or its sales representatives or consultants to comply with these laws and regulations could result in administrative, civil or criminal liabilities and could in the extreme case result in suspension of the company's export privileges, which could have a material adverse consequence.

**Item 6. Exhibits and Reports on Form 8-K**

**(a) Exhibits**

- 4.1 Amendment to Rights Agreement dated as of August 20, 2003 between Northrop Grumman Corporation and EquiServe Trust Company, N.A., as Rights Agent (incorporated by reference to Form 8-A/A filed October 30, 2003)
- \*10.1 Northrop Grumman 2001 Long-Term Incentive Stock Plan (As Amended September 17, 2003)
- \*10.2 Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (As amended and restated effective August 1, 2003)
- \*10.3 Special Officer Retiree Medical Plan (As Amended and Restated Effective October 1, 2003)
- \*10.4 Northrop Grumman Corporation March 2004 Change-in-Control Severance Plan
- \*10.5 Form of Northrop Grumman Corporation March 2004 Special Agreement
- \*10.6 Separation Agreement and General Release between Richard B. Waugh, Jr. and Northrop Grumman Corporation dated October 16, 2003
- \*10.7 Employment Agreement between Charles H. Noski and Northrop Grumman Corporation dated as of October 16, 2003, including Charles H. Noski Executive Retirement Plan attached as Exhibit A, Executive Perquisite Summary attached as Exhibit B, Northrop Grumman Corporation March 2004 Special Agreement attached as Exhibit C, and Release Agreement attached as Exhibit D
- \*15 Letter from independent accountants regarding unaudited interim financial information.
- \*31.1 Rule 13a-14a/15d-14(a) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002).
- \*31.2 Rule 13a-14a/15d-14(a) Certification of Richard B. Waugh, Jr. (Section 302 of the Sarbanes-Oxley Act of 2002).
- \*\*32.1 Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).
- \*\*32.2 Certification of Richard B. Waugh, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

\* Filed with this Report.

\*\* Furnished with this Report.

**(b) Reports on Form 8-K**

A report on Form 8-K was dated and submitted July 28, 2003, by Northrop Grumman Corporation including as an exhibit pursuant to Item 7 and furnishing as an exhibit pursuant to Item 12 information with respect to financial results for the quarter ended June 30, 2003.

A report on Form 8-K was dated and submitted October 29, 2003, by Northrop Grumman Corporation including as an exhibit pursuant to Item 7 and furnishing as an exhibit pursuant to Item 12 information with respect to financial results for the quarter ended September 30, 2003.

**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)

Date: November 6, 2003

By: /s/ SANDRA J. WRIGHT

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Sandra J. Wright  
Corporate Vice President and Controller  
(Principal Accounting Officer)

Date: November 6, 2003

By: /s/ JOHN H. MULLAN

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John H. Mullan  
Corporate Vice President and Secretary

# NORTHROP GRUMMAN 2001 LONG-TERM INCENTIVE STOCK PLAN

(As Amended September 17, 2003)

## 1. Purpose

The purpose of the Northrop Grumman 2001 Long-Term Incentive Stock Plan (the "Plan") is to promote the long-term success of Northrop Grumman Corporation (the "Company") and to increase stockholder value by providing its officers and selected employees with incentives to create excellent performance and to continue service with the Company, its subsidiaries and affiliates. Both by encouraging such officers and employees to become owners of the common stock of the Company and by providing actual ownership through Plan awards, it is intended that Plan participants will view the Company from an ownership perspective.

## 2. Term

The Plan shall become effective upon the approval by the stockholders of the Company (the "Effective Time"). Unless previously terminated by the Company's Board of Directors (the "Board"), the Plan shall terminate at the close of business on the day before the tenth anniversary of the Board's approval of the Plan. After termination of the Plan, no future awards may be granted but previously granted awards (and the Committee's (as such term is defined in Section 3) authority with respect thereto) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Plan.

## 3. Plan Administration

(a) The Plan shall be administered by the Compensation and Management Development Committee (or its successor) of the Board. Subject to the following provisions of this Section 3(a), the Compensation and Management Development Committee (or its successor) may delegate different levels of authority to make grants under the Plan to different committees, provided that each such committee consists of one or more members of the Board. With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Plan shall be administered by a committee consisting of two or more outside directors (as this requirement is applied under Section 162(m) of the Code). Transactions in or involving awards intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), must be duly and timely authorized by the Board or a committee of non-employee directors (as this term is used in or under Rule 16b-3). (The appropriate acting body, be it the Compensation and Management Development Committee or another duly authorized committee of directors, is referred to as "Committee".)

(b) The Committee shall have full and exclusive power to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which power shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. This power includes, but is not limited to, selecting award



recipients, establishing all award terms and conditions and adopting modifications, amendments and procedures, including subplans and the like as may be necessary to comply with provisions of the laws and applicable regulatory rulings of countries in which the Company (or its subsidiaries or affiliates, as applicable) operates in order to assure the viability of awards granted under the Plan and to enable participants employed in such countries to receive advantages and benefits under the Plan and such laws and rulings. In no event other than as contemplated by Section 6, however, shall the Committee or its designee have the right to cancel or amend outstanding stock options for the purpose of repricing, replacing or regranting such options with a purchase price that is less than the purchase price of the original option.

(c) In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including employees of and professional advisors to the Company. Any action taken by, or inaction of, the Committee relating to or pursuant to the Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding on all persons.

#### **4. Eligibility**

Any key employee of the Company shall be eligible to receive one or more awards under the Plan. "Key Employee" shall also include any former key employee of the Company eligible to receive an assumed or replacement award as contemplated in Sections 5 and 8. For purposes of this Section 4, "Company" includes any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

#### **5. Shares of Common Stock Subject to the Plan and Grant Limits**

(a) Subject to Section 6 of the Plan, the aggregate number of additional shares of common stock of the Company ("Common Stock") which may be issued or transferred pursuant to awards under the Plan shall not exceed the sum of: (i) 25,000,000 shares; plus (ii) any shares of Common Stock which as of the Effective Time are available or become available for issuance under the Company's 1993 Long-Term Incentive Plan (the "Prior Plan") and which are not thereafter issued; plus (iii) any shares of Common Stock which the Company repurchases with proceeds received from option exercises. For purposes of the Plan, (x) any shares of Common Stock which are forfeited back to the Company under the Plan or the Prior Plan (including, without limitation, any shares reserved but not actually issued with respect to restricted performance stock rights granted under the Prior Plan), and (y) any shares which have been exchanged by a participant as full or partial payment to the Company in connection with any award under the Plan or the Prior Plan, as well as any shares exchanged by a Participant or withheld by the Company to satisfy the tax withholding obligations related to an award under the Plan or the Prior Plan, shall be available for issuance under the Plan in subsequent periods.

(b) In no event, however, shall more than 10,000,000 shares of Common Stock available for issuance pursuant to the Plan be issued pursuant to stock awards granted under Section 8(c) of the Plan. The maximum number of shares of Common Stock that may be

delivered pursuant to stock options qualified as incentive stock options under Section 422 of the Code (“ISOs”) is 4,000,000 shares.

(c) In instances where a stock appreciation right (“SAR”) or other award is settled in cash or a form other than shares, the shares that would have been issued had there been no cash or other settlement shall not be counted against the shares available for issuance under the Plan. If an SAR or other award that was granted under the Prior Plan and outstanding at the Effective Time is settled in cash or a form other than shares, the shares that would have been issued had there been no cash or other settlement shall, notwithstanding anything to the contrary in the Prior Plan, not be counted against the shares available for issuance under the Prior Plan for purposes of determining the shares available for issuance under the Plan. The payment of cash dividends and dividend equivalents in conjunction with outstanding awards shall not be counted against the shares available for issuance under the Plan. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company (or a subsidiary or affiliate) in connection with a business or asset acquisition or similar transaction) shall not be counted against the shares available for issuance under the Plan.

(d) Any shares issued under the Plan may consist in whole or in part of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in settlements of awards under the Plan.

(e) In no event shall the total number of shares of Common Stock that may be awarded to any eligible participant during any three year period pursuant to stock option grants and SAR grants hereunder exceed 900,000 shares. In no event shall “Performance-Based Awards” under Section 8(c)(ii) (other than stock options or SARs, and without giving effect to any related dividend equivalents) that are granted to any eligible participant during any three consecutive years relate to or provide for payment of more than 300,000 shares of Common Stock.

(f) Adjustments to the Plan’s aggregate share limit pursuant to clause (ii), (iii), (x) and/or (y) of Section 5(a), as well as the provisions of Section 5(c), are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder. The limits set forth in Sections 5(b) and 5(e) shall apply with respect to all Plan awards regardless of whether the underlying shares are attributable to the fixed 8,000,000 shares made available for Plan award purposes or shares available but not issued under the Prior Plan.

## **6. Adjustments and Reorganizations**

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting shares or share price, the Committee shall make such proportionate adjustments, if any, as the Committee in its

discretion may deem appropriate to reflect such change with respect to (i) the aggregate number and type of shares that may be issued under the Plan; (ii) the grant limits established under the Plan; (iii) each outstanding award made under the Plan (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iv) the exercise price per share for any outstanding stock options, SARs or similar awards under the Plan. Any adjustment affecting an award intended as performance-based compensation under Section 162(m) of the Code shall be made consistent with the requirements of Section 162(m).

(b) Notwithstanding anything to the contrary in Section 6(a), the provisions of this Section 6(b) shall apply to an outstanding Plan award if a Change in Control (as defined in Section 6(e)) occurs. 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: (i) if the award is a stock option, it shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable; (ii) if the award is an SAR, it shall vest fully and completely, any and all restrictions on such SAR shall lapse, and such SAR shall be converted completely into cash at a price per share-unit equal to the higher of (x) the highest price paid for a share of Common Stock, as reported in the New York Stock Exchange Composite Transactions, during the 120 days prior to and including the date of the Change in Control, and (y) the highest price paid (on a national stock exchange or as quoted in the NASDAQ National Market Issues) for a share of stock of the corporation or other entity with which or into which the Company is merged, or if such corporation or other entity is not publicly traded, then the highest price paid on an exchange or as quoted in the NASDAQ National Market Issues for a share of stock of a publicly traded corporation or other entity that owns 50% or more (directly or indirectly) of such corporation or other entity on the date of the Change in Control (subject to adjustment pursuant to Section 6(a)); and (iii) if such award is an award or grant under Section 8(c) of the Plan, it shall immediately vest fully and completely, and all restrictions shall lapse, provided, however, that if the award is performance-based, the earnout or payout of the award, as applicable, shall be computed based on the performance terms of the award and based on actual performance achieved to the date of the Change in Control. No acceleration of vesting, exercisability and/or payment of an outstanding Plan award shall occur in connection with a Change in Control if either (i) the Company is the surviving entity, or (ii) the successor to the Company (if any) (or a parent thereof) agrees in writing prior to the Change in Control to assume the award; provided, however, that individual awards may provide for acceleration under these circumstances as contemplated by Section 6(c) below. Notwithstanding the foregoing provisions of this Section 6(b), no acceleration of vesting, exercisability and/or payment of an outstanding Plan award shall occur in connection with a Change in Control event that would, but for such acceleration, be accounted for under generally accepted accounting principles in effect on the date of such Change in Control as a pooling of interests transaction to the extent that such acceleration would render pooling accounting unavailable with respect to the transaction. If a stock option or other award is fully vested or becomes fully vested as provided in this paragraph (or would have become fully vested but for the pooling provision set forth in the preceding sentence) but is not exercised or paid 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 award following the Change in Control, or if for any other reason the award 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 award was paid or exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock and subject, in the case of an SAR or performance-based award, to the Change in Control payment provisions set forth above). An option or other award so settled by the Committee shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of an option or other award, then upon the Change in Control such option or award 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 such option or right; provided that the option or award holder shall be given reasonable notice of such intended termination and, subject to the pooling provision set forth above, an opportunity to exercise the option or award (to the extent an award other than an option must be exercised in order for the participant to realize the intended benefits) prior to or upon the Change in Control.

(c) Notwithstanding the provisions of Section 6(b), awards issued under the Plan may contain specific provisions regarding the consequences of a Change in Control and, if contained in an award, those provisions shall be controlling in the event of any inconsistency. (For example, and without limitation, an award may provide that (i) acceleration of vesting will occur automatically upon a Change in Control, or (ii) acceleration will occur in connection with a Change in Control if the participant is terminated by the Company without cause or the participant terminates employment for good reason.) The occurrence of a particular Change in Control under the Plan shall have no effect on any award granted under the Plan after the date of that Change in Control.

(d) The Committee may make adjustments pursuant to Section 6(a) and/or deem an acceleration of vesting of awards pursuant to Section 6(b) to occur sufficiently prior to an event if necessary or deemed appropriate to permit the participant 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 an award if the related event does not actually occur.

(e) A "Change in Control" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i) Any Person (other than those Persons in control of the Company as of the Effective Time, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting

Securities”); provided, however, that for purposes of this clause (i): (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

(ii) On any day after the Effective Time (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:

- (1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or
- (2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office. “Initial Date” means the later of (1) the Effective Time or (2) the date that is two (2) years before the Measurement Date.

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting

securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

(iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the Effective Time constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

“Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the 1934 Act. “Controlling Parent” means the Company’s Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one “Parent,” then “Controlling Parent” means the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. “Parent” means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company’s assets, directly or indirectly through one or more subsidiaries. “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the 1934 Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

## **7. Fair Market Value**

“Fair Market Value” for all purposes under the Plan shall mean the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York

Stock Exchange (the "Exchange") for the date in question. If no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported on said composite tape for the preceding day on which sales of Common Stock were made on the Exchange shall be substituted.

## **8. Awards**

The Committee shall determine the type or types of award(s) to be made to each participant. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. The types of awards that may be granted under the Plan are:

(a) **Stock Options**—A grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Committee. The purchase price per share for each option shall be not less than 100% of Fair Market Value on the date of grant, except that, in the case of a stock option granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. A stock option may be in the form of an ISO which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code. If an ISO is granted, the aggregate Fair Market Value (determined on the date the option is granted) of Common Stock subject to an ISO granted to a participant by the Committee which first becomes exercisable in any calendar year shall not exceed \$100,000.00 (otherwise, the intended ISO, to the extent of such excess, shall be rendered a nonqualified stock option). ISOs may only be granted to key employees of the Company or a subsidiary. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of the exercise in cash or such other method permitted by the Committee, including (i) tendering (either actually or by attestation) Common Stock; (ii) surrendering a stock award valued at Fair Market Value on the date of surrender; (iii) authorizing a third party to sell the shares (or a sufficient portion thereof) acquired upon exercise of a stock option and assigning the delivery to the Company of a sufficient amount of the sale proceeds to pay for all the shares acquired through such exercise; or (iv) any combination of the above. The Committee may grant stock options that provide for the award of a new option when the exercise price of the option and/or tax withholding obligations related to the exercise of the option have been paid by tendering shares of Common Stock to the Company or by the Company's reduction of the number of shares otherwise deliverable to the optionee. Any new option grant contemplated by the preceding sentence (the re-load grant) would cover the number of shares tendered by the optionee or withheld by the Company with the option purchase price set at the then current Fair Market Value and would never extend beyond the remaining term of the originally exercised option.

(b) **SARs**—A right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in

the applicable award agreement, except that, in the case of a SAR granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. The maximum term of an SAR shall be ten (10) years.

(c) Other Awards—Other awards, granted or denominated in Common Stock or units of Common Stock, may be granted under the Plan. Awards not granted or denominated in Common Stock or units of Common Stock (cash awards) also may be granted consistent with clause (ii) below.

(i) All or part of any stock award may be subject to conditions and restrictions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company (or a subsidiary or affiliate), achievement of specific business objectives, and other measurements of individual, business unit or Company performance. Unless the Committee otherwise provides, awards under this Section 8(c) to employees of the Company or a subsidiary that are either granted or become vested, exercisable or payable based on attainment of one or more of the performance goals related to the business criteria identified below, shall be deemed to be intended as Performance-Based Awards under Section 8(c)(ii).

(ii) Without limiting the generality of the foregoing, and in addition to stock options and SAR grants, other performance-based awards within the meaning of Section 162(m) of the Code (“Performance-Based Awards”), whether in the form of restricted stock, performance stock, phantom stock or other rights, the vesting of which depends on the absolute or relative performance of the Company on a consolidated, segment, subsidiary, division, or plant basis with reference to revenue growth, net earnings (either before or after interest, taxes, depreciation, amortization and/or Net Pension Income (as defined below)), cash flow, return on equity or on assets or on net investment, cost containment or reduction, stock price appreciation, total stockholder return, or EVA (as defined below) relative to preestablished performance goals, may be granted under the Plan. The applicable business criteria and the specific performance goals for Performance-Based Awards must be approved by the Committee in advance of applicable deadlines under the Code and while the performance relating to such goals remains substantially uncertain. The applicable performance period may range from one to ten years. Performance targets shall, to the extent determined by the Committee to be equitable and appropriate, be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting charges or other extraordinary events not foreseen at the time the targets were set. In no event shall share-based Performance-Based Awards granted to any eligible person under this Plan exceed the limit set forth in Section 5(e). In no event shall grants to any eligible person under this Plan of Performance-Based Awards payable only in cash in any calendar year and not related to shares provide for payment of more than \$3,000,000. Except as otherwise permitted under Section 162(m) of the Code, before any Performance-Based Award is paid, the Committee must certify that the performance goal and any other material terms of the Performance-Based Award were in fact satisfied. The Committee shall have discretion to determine the conditions, restrictions or other limitations, in accordance with



the terms of the Plan and Section 162(m) of the Code, on the payment of individual Performance Based Awards. The Committee may reserve by express provision in any award agreement the right to reduce the amount payable in accordance with any standards or on any other basis (including the Committee's discretion), as the Committee may impose. Performance-Based Awards may be granted only to key employees of the Company or a subsidiary. "EVA" means operating profit after tax (which means net earnings after tax but before tax adjusted interest income and expense and goodwill amortization), less a charge for the use of capital (which is based on average total capital and the weighted average cost of capital). "Net Pension Income" means any positive difference between income from employee pension plan investments less the cost of employee pension benefits for the relevant period of time.

#### **9. Dividends and Dividend Equivalents**

The Committee may provide that any awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently or may be credited to a participant's account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

#### **10. Deferrals and Settlements**

Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts, or the payment of crediting of dividend equivalents where the deferral amounts are denominated in shares.

#### **11. Transferability and Exercisability**

Unless otherwise expressly provided in (or pursuant to) this Section 11, by applicable law or by the award agreement, (i) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (ii) awards shall be exercised only by the holder; and (iii) amounts payable or shares issuable pursuant to an award shall be delivered only to (or for the account of) the holder. The foregoing exercise and transfer restrictions shall not apply to: (a) transfers to the Company; (b) the designation of a beneficiary to receive benefits in the event of the participant's death or, if the participant has died, transfers to or exercise by the participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; (c) transfers pursuant to a qualified domestic relations order (as defined in the Code) (in the case of ISOs, to the extent such transfers are permitted by the Code); (d) if the participant has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative; or (e) the authorization by the Committee of "cashless exercise" procedures. The Committee by express provision in the award or an amendment thereto may permit an award

(other than an ISO) to be transferred to, exercised by and paid to certain persons or entities related to the participant, including but not limited to members of the participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the participant's termination of employment with the Company (or a subsidiary or affiliate) to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

## **12. Award Agreements**

Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant's employment terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any award; provided, however, that such authority shall not extend to the reduction of the exercise price of a previously granted option, except as provided in Section 6 hereof. The Committee need not require the execution of any such agreement, in which case acceptance of the award by the respective participant shall constitute agreement to the terms of the award.

## **13. Plan Amendment**

The plan may only be amended by a disinterested majority of the Board of Directors as it deems necessary or appropriate to better achieve the purpose of the Plan, except that no such amendment shall be made without the approval of the Company's stockholders which would increase the number of shares available for issuance under the Plan (except for increases or adjustments expressly contemplated by Sections 5 and 6).

## **14. Tax Withholding**

The Company shall have the right to deduct from any settlement of an award made under the Plan, including the delivery or vesting of shares, a sufficient amount to cover withholding (at the flat percentage rates applicable to supplemental wages) of any Federal, state or local taxes required by law or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the Fair Market Value as of the settlement date of the applicable award.

## **15. Other Company Benefit and Compensation Programs**

Unless otherwise specifically determined by the Committee, settlements of awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any benefit plan or

severance program of the Company (or a subsidiary or affiliate), or any severance pay law of any country. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

**16. Unfunded Plan**

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such rights (unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

**17. Future Rights**

No person shall have any claim or rights to be granted an award under the Plan, and no participant shall have any rights under the Plan to be retained in the employ of the Company (or any subsidiary or affiliate).

**18. Governing Law; Severability; Legal Compliance**

The validity, construction and effect of the Plan, any award agreements or other documents setting forth the terms of an award, and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of California and applicable Federal law. If any provision of the Plan, any award agreement, or any other document setting forth the terms of an award shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan or such other document shall continue in effect.

The Plan, the granting and vesting of awards under the Plan and the issuance and delivery of Common Stock and/or the payment of money under the Plan or under awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities and banking laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

**19. Successors and Assigns**

The Plan shall be binding on all successors and assigns of a participant, including, without limitation, the estate of such participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the participant's creditors.

**20. Rights as a Stockholder**

Except as otherwise provided in the award agreement, a participant shall have no rights as a stockholder until he or she becomes the holder of record of shares of Common Stock.

Severance Plan for  
Elected and Appointed Officers of  
Northrop Grumman Corporation  
As amended and restated effective August 1, 2003

**1. Purpose of Plan.** The purpose of the Plan is to provide severance benefits for eligible Elected and Appointed Officers of Northrop Grumman Corporation who reside and work in the United States. The terms of this amended and restated Plan are effective as of August 1, 2003.

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

- (a) **“Committee”** means the Compensation and Management Development Committee of the Board of Directors of the Company or any successor to the Committee.
- (b) **“Company”** means Northrop Grumman Corporation.
- (c) **“CPC”** means the Corporate Policy Council
- (d) **“Disability”** means any disability of an Officer recognized as a disability for purposes of the Company’s long-term disability plan, or similar plan later adopted by the Company in place of such plan.
- (e) **“Officer”** means an Elected or Appointed Officer of Northrop Grumman Corporation who resides and works in the United States.
- (f) **“Plan”** means this Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation, as it may be amended from time to time.
- (g) **“Qualifying Termination”** means any one of the following (i) an Officer’s involuntary termination of employment with the Company, other than Termination for Cause or mandatory retirement, (ii) an Officer’s election to terminate employment with the Company in lieu of accepting a downgrade to a non-Officer position or status, (iii) following a divestiture of the Officer’s business unit, an Officer’s election to terminate employment with the acquiring Company in lieu of accepting a relocation to a job site located more than fifty miles from the Officer’s current work location, or (iv) if the Officer’s position is affected by a divestiture, the Officer is not offered a position of equivalent salary with the buyer at the time of such divestiture or is not offered buyer’s annual bonus (or similar program) offered to similarly situation officers of buyer. “Qualifying Termination” does not include any change in the Officer’s employment status due to any transfer within the Company or to an affiliate, Disability, voluntary termination or normal retirement.
- (h) **“Termination for Cause”** means an Officer’s termination of employment with the Company because of:
  - (i) The continued failure by the Officer to devote reasonable time and effort to the performance of his duties (other than a failure resulting

from the Officer's incapacity due to physical or mental illness) after written demand for improved performance has been delivered to the Officer by the Company which specifically identifies how the Officer has not devoted reasonable time and effort to the performance of his duties;

- (ii) The willful engaging by Officer in misconduct which is substantially injurious to the Company, monetarily or otherwise, or
- (iii) The Officer's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offences or as a result of vicarious liability).

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

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

### **3. Eligibility Requirements.**

- (a) Benefits under the Plan are subject to the Company's sole discretion and approval.
- (b) To be considered to receive benefits under the Plan an Officer must meet the following conditions:
  - (i) The Officer must experience a Qualifying Termination that results in termination of employment. If, before termination of employment occurs due to the Qualifying Termination event, the Officer voluntarily quits, retires, or experiences a Termination for Cause, the Officer will not receive benefits under this Plan.
  - (ii) The Officer must sign a Confidential Separation Agreement and General Release that will include, among other things, a release of any and all claims that he may have against the Company. A copy of this document is attached.

### **4. Severance Benefits.** Upon the Qualifying Termination of any eligible Officer, the terminated Officer shall be entitled to the following benefits under the Plan:

- (a) a lump-sum severance cash payment, (b) an extension of the Officer's existing medical and

dental coverage, (c) a prorated annual cash bonus payment, and (d) certain other fringe benefits.

- (a) Lump-sum cash severance payment. The designated Appendix describes the lump sum severance benefit available to the Officer.
- (b) Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for the period of time following the Officer's termination date that is specified in the designated Appendix. Such continuation coverage shall run concurrently with COBRA continuation coverage (or similar state law). The Officer must continue to pay his portion of the cost of this coverage with after-tax dollars. If rates for active employees increase during this continuation period, the contribution amount will increase proportionately. Also, if medical and dental benefits are modified, terminated or changed in any way for active employees during this continuation period the Officer will also be subject to such modification, termination or change. Following the continuation period specified in the designated Appendix the Officer will be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period (typically 18 months) at normal COBRA rates. The COBRA period starts the first day of the month following the end of the continuation period.

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

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

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

- (c) Company Performance Related Payment. The Officer will be eligible for a pro-rated cash payment for the current performance year, in addition to the lump-sum cash severance payment described in section 4(a). This severance payment will be equal in amount to the Officer's annual bonus

calculation using the Company-achieved Unit Performance Factor with an Individual Performance Factor set at 100, prorated from the beginning of the performance period (January 1st) to the Officer's date of termination. This severance payment will be paid when the annual bonuses are paid to active employees.

- (d) **Other Fringe Benefits.** All reimbursements will be within the limits established in the Executive Perquisite Program. These perquisites will cease as of the date of termination except for the following:
- (i) **Financial Planning and Tax Preparation.** If an Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. If an Officer is eligible for tax preparation reimbursement at the time of termination, he will be reimbursed for any income tax preparation fees incurred for income earned during the year in which he terminated employment with the Company.  
*Example: If an Officer's employment is terminated during the calendar year 2003, the Officer will receive reimbursement for income tax preparation that would normally be incurred during the beginning of 2004.*
  - (ii) **Automobile Allowance.** If an Officer has an automobile allowance at the time of termination, the Officer will receive a lump sum payment equal to the value specified on the designated Appendix.
  - (iii) **Outplacement Service.** The Officer will be reimbursed for the cost of outplacement services provided by the Company's outplacement service provider for services provided within one year after the Officer's date of termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Officer's base salary as of the date of termination. All services will be subject to the current contract with the provider.
- (e) **Time and Form of Payment.** The cash portion of the severance benefit, with the exception of any pro-rated bonus, will normally be paid to the eligible Officer in a lump sum shortly after his termination date, provided the Officer signs the requisite release. This amount will be paid after all regular taxes and withholdings have been deducted. No payment made pursuant to the Plan is eligible compensation under any of the Company's benefit plans, including without limitation, pension, savings, or deferred compensation plans.

**5. Limitation of Plan Benefits.** If the total amount of benefits, including Plan benefits,



provided to the Officer results in an “excess parachute payment” within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, the Company, in its sole discretion, may reduce the benefits provided under the Plan so that the total payment will not result in the making of an excess parachute payment to the Officer. Any such reduction shall be made after consultation with the Officer as to a desired hierarchy of benefit reduction.

**6. Offset for Other Benefits Received.** The benefits under the Plan are in lieu of, and not in addition to, any other severance or separation benefits for which the Officer is eligible under any Company plan, policy or arrangements (including but not limited to, severance benefits provided under any employment agreement, retention incentive agreement, or similar benefits under any individual change in control agreements, plans, policies, arrangements and change in control agreements of acquired companies or business units) (collectively, “severance plans”). If an Officer receives any benefit under any severance plan, such benefit shall cause a corresponding reduction in benefits under this Plan. If, despite any release that the Officer signs in connection with the Plan, such Officer is later awarded and receives benefits under any other severance plan(s), any benefits that the Officer receives under the Plan will be treated as having been received under those other severance plans for purposes of calculating total benefits received under those other severance plans (that is, benefits under those other severance plans will be reduced by amounts received under the Plan).

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

#### **8. Claims and Appeals Procedures**

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

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

additional 90 days.

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

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

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

**10. Unfunded Obligations.** All benefits due an Officer or the Officer's beneficiary under this Plan are unfunded and unsecured and are payable out of the general funds of the Company. The Company, in its sole and absolute discretion, may establish a trust associated with the payment of Plan benefits, provided that the trust does not alter the characterization of the Plan as an "unfunded plan" for purposes of the Employee Retirement Income Security Act, as amended. Any such trust shall make distributions in accordance with the terms of the Plan.

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

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

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

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

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

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## Appendix for Corporate Policy Council (CPC) Officers

The following benefits shall apply for purposes of eligible Officers who are members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal to two times the sum of (A) one years base salary as in effect on the effective date of the Officer's termination, plus (B) the greater of (i) the Officer's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the date of termination occurs, or (ii) the average of the Officer's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the three full fiscal years prior to the date of the Officer's termination. No supplemental bonuses or other bonuses will be combined with the executive's annual bonus for purposes of this computation.

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

Section 4(d)(ii). Automobile Allowance. If an Officer has an automobile allowance, the Officer will receive a lump sum payment equal to the value of a twenty-four month car allowance.

## Appendix for non-CPC Officers

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

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal the sum of (A) one years base salary as in effect on the effective date of the Officer's termination, plus (B) the greater of (i) the Officer's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the date of termination occurs, or (ii) the average of the Officer's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the three full fiscal years prior to the date of the Officer's termination. No supplemental bonuses or other bonuses will be combined with the executive's annual bonus for purposes of this computation.

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

Section 4(d)(ii). Automobile Allowance. If an Officer has an automobile allowance, the Officer will receive a lump sum payment equal to the value of a twelve month car allowance.

**SPECIAL OFFICER RETIREE MEDICAL PLAN**  
**(As Amended and Restated Effective October 1, 2003)**

ARTICLE 1

Eligibility and Benefits

- 1.01 Purpose. The purpose of the Special Officer Retiree Medical Plan ("Plan") is to provide lifetime retiree medical benefits to eligible elected officers of Northrop Grumman Corporation ("the Company") and their eligible dependents. This Plan provides for the continuation of welfare benefits to a select group of management or highly compensated employees within the meaning of Department of Labor Regulation section 2520.104-24 and Sections 201, 301, and 401 of the Employee Retirement Income Security Act.
- 1.02 Transition Rule. Vested Participants who have retired and commenced benefits under the Plan prior to October 1, 2003 ("Retired Participants") may elect to continue to be covered by the provisions of the Plan as in effect prior to October 1, 2003 ("Prior Plan") or, effective January 1, 2004, to be covered by the amended and restated Plan with Retired Participant contributions frozen as of October 1, 2003. Such election shall be made pursuant to specified forms and procedures. Participants who are actively employed by the Company on September 30, 2003 shall have the right, if otherwise eligible for the Plan at the time of retirement, to elect to be covered by the Prior Plan or the Plan as in effect at the time of such Participant's retirement. Such election shall be made pursuant to specified forms and procedures. Any individual who is designated as eligible to participate in the Plan on or after October 1, 2003, shall be covered by the terms of the Plan as in effect at such time.
- 1.03 Eligibility. Eligibility for the Plan will be limited to those elected officers who are designated as eligible to participate in the Plan by the Company's Board of Directors ("Board") or the Compensation and Management Development Committee ("Committee") of the Board.
- (a) An elected officer who is designated as eligible to participate in the Plan is a "Participant" under the Plan.
  - (b) A Participant will become a "Vested Participant" under the Plan if he or she has either five years of Vesting Service as an elected officer or 30 years of total service with the Company and its affiliates. "Vesting Service" shall be as defined in the Company's supplemental executive retirement plan in which the Vested Participant participates at the time the service is performed.
  - (c) The Board or Committee may revoke a Participant's Plan eligibility without such Participant's consent. The Board or

Committee may revoke a Vested Participant's Plan eligibility, provided that such Participant or, after the Participant's death, his or her spouse, consents to the revocation.

- 1.04 **Benefits.** If a Vested Participant retires from the Company on or after age 55 with 10 years of Vesting Service and enrolls for Medicare A and B coverage when first eligible, the Company will provide the Vested Participant (and eligible dependents) with a continuation of his or her executive medical coverage commencing at retirement. The medical coverage shall be provided pursuant to the terms of the Northrop Grumman Executive Medical Plan ("Medical Plan"), as such Medical Plan is modified for active executives. Dependent eligibility is determined pursuant to the terms of the Medical Plan.
- (a) The Vested Participant shall be responsible for any participant cost items, such as contributions, copayments, and deductibles, as described in the Medical Plan; provided, however, that the level of participant contributions will be frozen as of the Vested Participant's retirement date. Continuation of Medical Plan coverage will be provided for the life of the Vested Participant and the life of his or her Surviving Spouse, if any. (For purposes of the Plan, only a surviving spouse who is married to the Vested Participant both at the time of termination of employment with the Company and its affiliates and at the time of the Vested Participant's death shall be considered a "Surviving Spouse.") Eligible dependent coverage will only be available during the life of the Vested Participant and the life of his or her Surviving Spouse, if any.
  - (b) Following the death of a married Vested Participant or his or her Surviving Spouse, the level of participant contributions for the survivor will be adjusted to what they would have been for the Vested Participant for individual coverage as of his or her retirement date.
  - (c) A Vested Participant may elect to commence continuation of his or her Medical Plan coverage pursuant to this Plan only at such Participant's termination of employment due to retirement from the Company or an affiliate on or after attainment of age 55 with at least 10 years of Vesting Service. If the election to commence is not made at such time, the Vested Participant and his or her dependents cease to be eligible for the Plan. No subsequent election will be allowed.
  - (d) Eligibility for the continuation of executive medical benefits pursuant to the Plan shall cease if any payment required to be made

by the Vested Participant or dependent (for example, participant contributions, copayments or deductibles) is not timely paid.

- 1.05 Change in Control. Upon the occurrence of a “change in control” as defined in the Company’s Change-In-Control Severance Plan (as in effect at such time), each of the following shall occur:
- (a) The Participant shall become a “Vested Participant.”
  - (b) The Plan may not be terminated or amended in any manner that adversely affects the benefits of the Participant without his or her consent.
  - (c) All participant contributions, co-pays, deductibles and any other participant or dependent cost items pursuant to the terms of the Medical Plan shall be frozen as of the date of the change in control.
- 1.06 Claims and Appeals Procedures. A claim or appeal relating to the Plan shall be subject to the claims and appeals procedures set forth in the Medical Plan.

ARTICLE 2

General Provisions

- 2.01 Amendment and Plan Termination. Except as provided in Section 1.05(b), the Company may amend or terminate the Plan at any time for any reason.
- 2.02 Assignment of Benefits. A Vested Participant or dependent may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process. Notwithstanding the foregoing, the Plan may provide Plan continuation coverage pursuant to a final court order directing the Plan to provide such coverage.
- 2.03 Nonduplication of Benefits. This Section applies if the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any coverage due the Participant (or his or her dependent) under the Plan will be reduced by the actuarial value of the coverage extended or payments made to such other person or entity.



- 2.04 Medicare Primary. Medicare coverage is primary to coverage offered pursuant to the Plan. Plan coverage shall be secondary to Medicare to the maximum extent permissible under law.
- 2.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to continue eligibility for executive medical coverage pursuant to the terms of the Plan.
- 2.06 Construction. The Committee shall have full and sole discretionary authority to determine eligibility, construe and interpret the terms of the Plan, and determine factual issues, including the power to remedy possible ambiguities, inconsistencies or omissions.
- 2.07 Governing Law. This Plan shall be governed by the law of the State of California, except to the extent superseded by federal law.
- 2.08 Actions By Company. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Committee or its delegate. The Committee may by written resolution delegate any of its powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

**NORTHROP GRUMMAN CORPORATION  
MARCH 2004 CHANGE-IN-CONTROL  
SEVERANCE PLAN**

**NORTHROP GRUMMAN CORPORATION**  
**MARCH 2004 CHANGE-IN-CONTROL SEVERANCE PLAN**

**Article 1. Establishment, Term, and Purpose**

**1.1. Establishment of the Plan.** Northrop Grumman Corporation (hereinafter referred to as the "Company") hereby establishes a change in control severance plan to be known as the "Northrop Grumman Corporation March 2004 Change-in-Control Severance Plan" (the "Plan"). This Plan shall become effective March 1, 2004 (the "Effective Date").

**1.2. Term of the Plan.** This Plan will commence on the Effective Date and shall continue in effect through February 28, 2007. However, at the end of such three (3) year period and, if extended, at the end of each additional year thereafter, the term of this Plan shall be extended automatically for one (1) additional year, unless the Committee delivers written notice at least six (6) months prior to the end of such term, or extended term, to each Participant that this Plan will not be extended, and if such notice is timely given this Plan will terminate at the end of the term then in progress; provided, however, that this provision for automatic extension shall have no application following a Change in Control.

However, in the event a Change in Control occurs during the original or any extended term, this Plan will remain in effect for the longer of: (i) twenty-four (24) months beyond the month in which such Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to Participants. Any subsequent Change in Control ("Subsequent Change in Control") that occurs during the original or any extended term shall also continue the term of this Plan until the later of: (i) twenty-four (24) months beyond the month in which such Subsequent Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to Participants; provided, however, that if a Subsequent Change in Control occurs, it shall only be considered a Change in Control under this Plan if it occurs no later than twenty-four (24) months after the immediately preceding Change in Control or Subsequent Change in Control.

**1.3. Purpose of the Plan.** The purpose of this Plan is to provide for continuity in the management of the Company by offering certain key employees of the Company employment protection and financial security in the event of a Change in Control of the Company.

**1.4. ERISA.** This Plan is intended as (i) a pension plan within the meaning of Section 3(2) of ERISA, and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA.

**Article 2. Definitions**

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

- (a) "Base Salary" means the salary of record paid to a Participant by the Company as annual salary (whether or not deferred), but excludes amounts received under incentive or other bonus plans.

- (b) “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- (c) “Beneficiary” means the persons or entities designated or deemed designated by a Participant pursuant to Section 11.2.
- (d) “Board” means the Board of Directors of the Company.
- (e) “Cause” shall mean the occurrence of either or both of the following:
  - (i) The Participant’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 Participant in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Participant’s part shall be considered “willful” unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.
- (f) “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:
  - (i) Any Person (other than those Persons in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this clause (i): (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

- (ii) On any day after the Effective Date (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:
- (1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or
  - (2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office.

“Initial Date” means the later of (1) the Effective Date or (2) the date that is two (2) years before the Measurement Date.

- (iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

(iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the Effective Date constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

- (g) "Code" means the United States Internal Revenue Code of 1986, as amended.
- (h) "Committee" means the Compensation and Management Development Committee of the Board, or any other committee appointed by the Board to perform the functions of the Compensation and Management Development Committee.
- (i) "Company" means Northrop Grumman Corporation, a Delaware corporation (including, for purposes of determining whether a Participant is employed by the Company, any and all subsidiaries specified by the Committee), or any successor thereto as provided in Article 10.
- (j) "Controlling Parent" means the Company's Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one "Parent," then "Controlling Parent" shall mean the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person.
- (k) "Disability" with respect to a particular Participant means disability as defined in the Company's long-term disability plan in which the Participant participates at the relevant time or, if the Participant does not participate in a Company long-term disability plan at the relevant time, as such term is defined in the Company's principal long-term disability plan that generally covers the Company's senior-level executives at that time.
- (l) "Effective Date" means March 1, 2004.
- (m) "Effective Date of Termination" means the date on which a Qualifying Termination occurs.
- (n) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (o) "Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

- (p) “Good Reason” means, without the Participant’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 Participant’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 Participant, and/or (B) changes in the nature or status of the Participant’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the participant 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 Participant immediately prior to the start of the Protected Period. For the purpose of the preceding test, the Participant and the Company shall mutually agree on a nationally-recognized consulting firm; provided that, if agreement cannot timely be reached, the Company and the Participant shall each timely choose a nationally-recognized firm and representatives of these two firms shall promptly choose a third firm, which third firm will make the determination referred to in the preceding sentence. The written opinion of the firm thus selected may be admitted in any arbitration pursuant to Section 9.4 and shall be conclusive as to this issue.  
  
In addition, if the Participant is a vice president, the Participant’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 Participant’s lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Participant’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 Participant’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 Participant 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 Participant’s Base Salary as in effect on the Effective Date or as the same shall be increased from time to time.
  - (iii) A material reduction in the aggregate value of the Participant’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 Participant 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 Participant immediately prior to the start of the Protected Period.

- (iv) A material reduction in the Participant'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 Participant immediately prior to the start of the Protected Period.
- (v) The failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Plan, as contemplated in Article 10.
- (vi) Any purported termination by the Company of the Participant's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4.8 and for purposes of this Plan, no such purported termination shall be effective.
- (vii) The Participant 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 Executive'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 (vii) more than ninety (90) days before such intended effective date.

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

- (q) "Parent" means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company's assets, directly or indirectly through one or more subsidiaries.
- (r) "Participant" means an employee of the Company who fulfills the eligibility and participation requirements, as provided in Article 3.
- (s) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.
- (t) "Plan" means this Northrop Grumman Corporation March 2004 Change-in-Control Severance Plan.
- (u) "Qualifying Termination" has the meaning given to such term in Section 4.3(a).
- (v) "Severance Benefits" means the payments and/or benefits provided in Section 4.4.



### **Article 3. Participation**

**3.1. Eligible Employees.** Individuals eligible to participate in this Plan shall include such employees of the Company as may be determined by the Committee in its sole discretion.

**3.2. Participation.** Subject to the terms of this Plan, the Committee or its delegate may, from time to time select from all eligible employees those who shall participate in this Plan. The Committee or its delegate also may, from time to time and by written notice to the affected Participant(s), remove any previously-selected Participant(s) from continued participation in this Plan; provided that any removal of a Participant shall not be effective if it occurs after the commencement of the Protected Period (as such term is defined in Section 4.3(b)).

### **Article 4. Severance Benefits**

**4.1. Right to Severance Benefits.** A Participant shall be entitled to receive from the Company Severance Benefits, as described in Section 4.4, if the Participant has incurred a Qualifying Termination.

A Participant shall not be entitled to receive Severance Benefits if his or her employment terminates (regardless of the reason) before the Protected Period (as such term is defined in Section 4.3(b)) corresponding to a Change in Control of the Company or more than twenty-four (24) months after the date of a Change in Control of the Company.

**4.2. Services During Certain Events.** In the event a Person begins a tender or exchange offer, circulates a proxy to stockholders of the Company, or takes other steps seeking to effect a Change in Control, the Participant shall not voluntarily leave the employ of the Company and shall continue to render services until the later of (i) the date such Person has abandoned or terminated his or its efforts to effect a Change in Control, and (ii) the date that is six (6) months after a Change in Control has occurred. Notwithstanding the foregoing, the Company may terminate the Participant's employment for Cause at any time, and the Participant may terminate his or her employment at any time after the Change in Control for Good Reason.

#### **4.3. Qualifying Termination.**

- (a) Subject to Sections 4.3(c), 4.3(d), 4.5, 4.6 and 4.7, the occurrence of any one or more of the following events 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 shall constitute a "Qualifying Termination":
- (i) An involuntary termination of the Participant's employment by the Company for reasons other than Cause;
  - (ii) A voluntary termination of employment by the Participant for Good Reason;
  - (iii) A successor company fails or refuses to assume by written instrument the Company's obligations under this Plan, as required by Article 10; or
  - (iv) The Company or any successor company repudiates or breaches any of the provisions of this Plan.

If more than one of the events set forth in this Section 4.3(a) occurs, such events shall constitute but a single Qualifying Termination and the Participant shall be entitled to but a single payment of the Severance Benefits.

- (b) 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.
- (c) Notwithstanding anything else contained herein to the contrary, a Participant's termination of employment on account of reaching mandatory retirement age, as such age may be defined from time to time in policies adopted by the Company prior to the commencement of the Protected Period, and consistent with applicable law, shall not be a Qualifying Termination.
- (d) Notwithstanding anything else contained herein to the contrary, the termination of a Participant's employment (or other events giving rise to Good Reason) shall not constitute a Qualifying Termination if there is objective evidence that, as of the commencement of the Protected Period, the Participant 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.
- (e) Notwithstanding anything else contained herein to the contrary (other than those provisions that contain an express exception to this Section 4.3(e)), a Participant's Severance Benefits under this Plan shall be reduced by the severance benefits (including, without limitation, any other change-in-control severance benefits and any other severance benefits generally) that the Participant may be entitled to under any other plan, program, agreement or other arrangement with the Company (including, without limitation, any such benefits provided for by an employment agreement, a Northrop

Grumman Corporation Special Agreement, a Northrop Grumman Corporation March 2000 Special Agreement, under the prior Northrop Grumman Corporation Change-In-Control Severance Plan, or under the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan); provided that if the Participant is otherwise entitled to receive Severance Benefits under this Plan and under a Northrop Grumman Corporation March 2004 Special Agreement, benefits shall be paid under the Northrop Grumman Corporation March 2004 Special Agreement rather than under this Plan. For purposes of the foregoing, any cash severance benefits payable to the Participant under any other plan, program, agreement or other arrangement with the Company shall offset the cash severance benefits otherwise payable to the Participant under this Plan on a dollar-for-dollar basis. For purposes of the foregoing, non-cash severance benefits to be provided to the Participant under any other plan, program, agreement or other arrangement with the Company shall offset any corresponding benefits otherwise to be provided to the Participant under this Plan or, if there are no corresponding benefits otherwise to be provided to the Participant under this Plan, the value of such benefits shall offset the cash severance benefits otherwise payable to the Participant under this Plan on a dollar-for-dollar basis. If the amount of other benefits to be offset against the cash severance benefits otherwise payable to the Participant under this Plan in accordance with the preceding two sentences exceeds the amount of cash severance benefits otherwise payable to the Participant under this Plan, then the excess may be used to offset other non-cash severance benefits otherwise to be provided to the Participant under this Plan on a dollar-for-dollar basis. For purposes of this Section 4.3(e), the Company shall reasonably determine the value of any non-cash benefits.

**4.4. Description of Severance Benefits.** In the event that a Participant becomes entitled to receive Severance Benefits, as provided in Sections 4.1 and 4.3, the Company shall pay to the Participant and provide him or her with the following:

- (a) An amount equal to two (2) times the highest rate of the Participant's annualized Base Salary in effect at any time up to and including the Effective Date of Termination.
- (b) An amount equal to two (2) times the greater of: (i) the highest of the Participant's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for any one of the three (3) full fiscal years prior to the date of the Change in Control of the Company; or (ii) the Participant's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the Change in Control of the Company occurs. (The greater of the amount determined pursuant to clause (i) or clause (ii) in the preceding sentence with respect to a Participant is referred to as the Participant's "Bonus Amount.") Special bonuses or bonus enhancements that would otherwise be included for purposes of the calculation pursuant to the first sentence of this Section 4.4(b), but that are related to a merger, acquisition, consolidation, reorganization, spin-off or similar event and that are not part of the Company's customary on-going program of Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) bonuses shall be excluded for purposes of such calculation.

- (c) An amount in settlement of the Participant's bonus opportunity under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the fiscal year in which the Effective Date of Termination occurs, such amount determined as follows:
- (i) If the Effective Date of Termination occurs in the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the sum of:
- (A) the greater of (X) or (Y) multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year through the date of the Change in Control of the Company and the denominator of which is three hundred sixty-five (365), where (X) is the Participant's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year and (Y) is the amount of bonus that the Participant would be entitled to under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year assuming that the Participant's employment had not terminated and based on performance through the date of the Change in Control of the Company relative to the pre-approved performance goals for that year; plus
- (B) the Participant's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year following the date of the Change in Control of the Company through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (ii) If the Effective Date of Termination occurs in a fiscal year following the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the Participant's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year in which the Effective Date of Termination occurs through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (d) A continuation of the Participant's medical coverage, dental coverage, and group term life insurance for the Participant, his spouse, and his eligible dependents for the two (2) years following the Participant's Effective Date of Termination; provided that such continuation of coverage shall run concurrently with COBRA continuation or similar state law continuation periods; and provided further that the continuation of such coverage shall be discontinued prior to the end of the two (2) year period in the event the Participant has available substantially similar benefits from a subsequent employer, as reasonably determined by the Committee. Except as provided in the next sentence, such benefits shall be provided to the Participant at the same premium cost, and at the same coverage level, as in effect as of the Participant's Effective Date of Termination. However, in the event the premium cost and/or level of coverage shall change for all employees of the Company, the cost and/or coverage level, likewise, shall change for each Participant in a corresponding manner. The continuation of coverage for the period contemplated by this Section 4.4(d) shall be coordinated with and paid secondary to any benefits that the Participant, his spouse, or his dependent receives from another employer or from Medicare (following the Participant's, his spouse's, and/or his dependent's

entitlement to Medicare benefits) to the maximum extent permissible under relevant law. Notwithstanding the foregoing provisions of this Section 4.4(d), if the Participant is eligible to commence benefits under the Company's Special Officer Retiree Medical Plan ("SORMP") as of the Effective Date of Termination, then the Participant shall receive medical and dental continuation coverage pursuant to the SORMP instead of the continuation coverage contemplated by the foregoing provisions of this Section 4.4(d). Any other continuation of medical, dental, or group term life insurance that the Participant may otherwise be entitled to upon or following his Effective Date of Termination in accordance with the express terms of a Company welfare benefit plan shall not give rise to an offset pursuant to Section 4.4(e) and shall not be deemed to duplicate the benefits of the continuation coverage contemplated by this Section 4.4(d).

- (e) A lump-sum cash amount equal to (i) minus (ii), with (i) and (ii) determined as follows:
- (i) equals the actuarial present value equivalent of the aggregate benefits accrued by the Participant as of his Effective Date of Termination under the qualified defined benefit pension plan or plans in which the Participant participates (the "qualified plan"), and under any and all supplemental defined benefit retirement plans in which the Participant participates, calculated as if the Participant's employment continued for two (2) full years following the Participant's Effective Date of Termination (*i.e.*, the Participant receives two (2) additional years of vesting and benefit accruals, including, in the case of a Participant in a cash balance plan, two years of projected post-termination interest credits based on the interest rate in effect at termination, and his age is also increased two (2) years from his age as of his Effective Date of Termination); provided, however, that for purposes of determining "Final Average Pay" under such plans, the Participant's actual pay history as of the Effective Date of Termination shall be used; and
  - (ii) equals the actuarial present value equivalent of the aggregate benefits payable to the Participant as of his Effective Date of Termination under the qualified plan and under any and all supplemental defined benefit retirement plans in which the Participant participates, calculated assuming that the Participant retired and went into pay status under the terms of such plans on or as soon as possible after his Effective Date of Termination.

The intent of this Section 4.4(e) is that the qualified plan and any supplemental defined benefit retirement plan benefits will be paid in the normal course under the terms of those plans, with the additional benefits payable as a result of the imputation of age and service under this provision being paid from this Plan. The Participant shall also be entitled to an additional two (2) years of age and service to count towards eligibility under one or more of the Company retiree medical programs for which the Participant would have been eligible absent any such termination.

- (f) Reimbursement by the Company for the costs of all outplacement services obtained by the Participant within the one (1) year period after the Effective Date of Termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Participant's Base Salary as of the Effective Date of Termination.

(g) An amount equal to two (2) times the greater of: (i) the annual value of the perquisites provided to the Participant under the Company's Executive Perquisite Program as such program is in effect at the start of the Protected Period corresponding to the Change in Control of the Company, or (ii) the annual value of the perquisites provided to the Participant under the Company's Executive Perquisite Program as such program is in effect immediately before the Effective Date of Termination. The Company shall determine the annual value of such perquisites on a reasonable basis. This Section 4.4(g) is not intended to provide for the duplication of any welfare benefits that are otherwise provided by Section 4.4(d) or which would otherwise continue for two (2) years or more following the Participant's Effective Date of Termination. For example, if a welfare benefit otherwise provided by Section 4.4(d) is also included in the Executive Perquisite Program, such welfare benefit shall be excluded from the Executive Perquisite Program for purposes of the calculations pursuant to this Section 4.4(g).

**4.5. Termination for Total and Permanent Disability.** Termination of a Participant's employment due to Disability is not a Qualifying Termination. However, if immediately prior to the condition or event leading to, or the commencement of, the Disability of the Participant, the Participant would have experienced a Qualifying Termination if he had terminated at that time, then upon termination of his employment for Disability he shall be entitled to the benefits provided by this Plan for a Qualifying Termination.

**4.6. Termination for Retirement or Death.** Termination of a Participant's employment due to retirement or death is not a Qualifying Termination. However, if immediately prior to the Participant's retirement (but not death), the Participant would have experienced a Qualifying Termination if he had terminated at that time, then upon his retirement he shall (subject to Section 4.3(c)) be entitled to the benefits provided by this Plan for a Qualifying Termination.

**4.7. Termination for Cause or by a Participant Other Than for Good Reason** Termination of a Participant's employment by the Company for Cause or by the Participant other than for Good Reason does not constitute a Qualifying Termination.

**4.8. Notice of Termination.** Any termination by the Company for Cause or by a Participant for Good Reason shall be communicated by a Notice of Termination. For purposes of this Plan, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated.

#### **Article 5. Form and Timing of Severance Benefits; Tax Withholding; Funding of Rabbi Trust**

**5.1. Form and Timing of Severance Benefits.** The Severance Benefits described in Section 4.4(a), 4.4(b), 4.4(c), 4.4(e), and 4.4(g) shall be paid in cash to the Participant in a single lump sum as soon as practicable following the Effective Date of Termination, but in no event beyond thirty (30) days from such date.

**5.2. Withholding of Taxes.** The Company shall be entitled to withhold from any amounts payable under or pursuant to this Plan all taxes as legally shall be required (including, without limitation, any United States Federal taxes, and any other state, city, or local taxes).

**5.3. Funding of Rabbi Trust.** To the extent the Company is obligated to make a contribution to any rabbi trust, pursuant to the express terms of such trust, upon or with respect to a Protected Period or the occurrence of a Change in Control, the Company shall make such required contribution in accordance with the terms of such trust.

**Article 6. Excise Tax Limitation; Possible Gross-Up**

**6.1. Determination of Termination Payment Limit.**

- (a) Notwithstanding anything contained in this Plan to the contrary, to the extent that any payment, benefit or other distribution of any type to or for a Participant by the Company, any affiliate of the Company, any person who acquires ownership or effective control of the Company or ownership of a substantial portion of the Company's assets (within the meaning of Section 280G of the Code and regulations thereunder), or any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise (the "Total Payments") is or will be subject to the excise tax imposed under Section 4999 of the Code (the "Excise Tax"), then the Total Payments shall be reduced (but not below zero) so that the maximum amount of the Total Payments (after reduction) shall be one dollar (\$1) less than the amount which would cause the Total Payments to be subject to the Excise Tax; provided that the amount of the Total Payments after giving effect to such reduction is not less than ninety percent (90%) of the amount of the Total Payments before giving effect to such reduction. If the amount of the Total Payments after giving effect to the reduction contemplated by the preceding sentence would be less than ninety percent (90%) of the amount of the Total Payments before giving effect to such reduction, then such a reduction shall not apply and the Company shall pay to the Participant or for the Participant's benefit as provided below in cash an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount of the Total Payments retained by the Participant after the deduction of any Excise Tax on such payments, benefits and/or amounts so received and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section 6.1 shall be equal to ninety percent (90%) of the net amount of the Total Payments that the Participant would have retained (after the deduction of any Federal, state and local income tax on such payments) had the Total Payments not been subject to the Excise Tax. Such Gross-Up Payment(s) shall be made by the Company to the Participant or applicable taxing authority on behalf of the Participant as soon as practicable following the receipt or deemed receipt of any such payments, benefits and/or amounts so received, and may be satisfied by the Company making a payment or payments on the Participant's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Participant of any such payment, benefit and/or amount.
- (b) If a reduction in the Total Payments is required pursuant to Section 6.1(a), then unless the Participant shall have given written notice to the Company on or before the date that is twenty five (25) days after the Participant's Effective Date of Termination specifying a different order to the Company to effectuate the reduction, then the Company shall reduce or eliminate the Total Payments by first reducing or eliminating the portion of the Total Payments which are not payable in cash and then by reducing or eliminating cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the Determination (as hereinafter defined); provided

that, if the Participant does not give prior written notice, the reduction shall first occur to benefits (cash or non-cash) arising under this Plan. Any notice given by the Participant pursuant to the preceding sentence shall take precedence over the provisions of any other plan, arrangement or agreement governing the Participant's rights and entitlements to any benefits or compensation.

**6.2. Calculation of Gross-Up Payment.** The determination of whether a reduction in Total Payments or a Gross-Up Payment is required pursuant to this Article 6 and the amount of any such reduction or Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public accounting firm selected by the Company (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Company and the Participant within twenty (20) days of the Effective Date of Termination. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Participant shall have the right, at the Company's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Participant's "annualized includible compensation for the base period" (as defined in Code Section 280G(d) (1)); (ii) the present value of the Total Payments; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Company, a firm of nationally-recognized executive compensation consultants. The outside counsel's opinion shall be binding upon the Company and the Participant and shall constitute the "Determination" for purposes of this Article 6 instead of the initial determination by the Accounting Firm. The Company shall pay (or, to the extent paid by the Participant, reimburse the Participant for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section 6.2, "outside counsel" means a licensed attorney selected by the Participant who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Company must approve the Participant's selection, which approval shall not be unreasonably withheld.

**6.3. Computation Assumptions.** For purposes of determining whether any payments, benefits and/or amounts, including amounts paid as Severance Benefits, will be subject to Excise Tax, and the amount of any such Excise Tax and any Gross-Up Payment:

- (a) Any other payments, benefits and/or amounts received or to be received by the Participant in connection with or contingent upon a Change in Control of the Company or the Participant's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, or with any Person whose actions result in a Change in Control of the Company or any Person affiliated with the Company or such Persons) shall be combined to determine whether the Participant has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;



- (b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code;
- (c) The compensation and benefits provided for in Section 4.4, and any other compensation earned prior to the Effective Date of Termination by the Participant pursuant to the Company's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change in Control), shall for purposes of the calculation pursuant to this Section 6.3 be deemed to be reasonable; and
- (d) The Participant shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Participant's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Participant's residence on the Effective Date of Termination, and shall take into account the maximum reduction in Federal income taxes that could be obtained from the deduction of such state and local taxes.

**6.4. Participant's Obligation to Notify Company.** The Participant shall promptly notify the Company in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Company of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Company notifies Participant in writing that it desires to contest such claim, the Participant shall: (a) give the Company any information reasonably requested by the Company relating to such claim; (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company that is reasonably acceptable to Participant; (c) cooperate with the Company in good faith in order to effectively contest such claim; and (d) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Participant harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section 6.4, and to the extent its actions do not unreasonably interfere with or prejudice the Participant's disputes with the Taxing Authority as to other issues, the Company shall control all proceedings taken in connection with such contest and, in its

reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct the Participant to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Participant agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Participant to pay such claim and sue for a refund, the Company shall advance an amount equal to such payment to the Participant, on an interest-free basis, and shall indemnify and hold the Participant harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Participant with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Participant and the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Participant shall be entitled to settle or contest, as the case may be, any other issue.

**6.5. Subsequent Recalculation.** In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Participant did not receive the greatest net benefit required pursuant to Section 6.1, the Company shall reimburse the Participant as provided herein for the full amount required to place the Participant in after-tax position required pursuant to Section 6.1. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Participant received a payment or benefit in excess of the amount required pursuant to Section 6.1 (including, without limitation, in the event that a reduction in Total Payments is required pursuant to Section 6.1 and the amount of such required reduction increases as a result of the determination by the Taxing Authority), then the Participant shall promptly pay to the Company the amount of such excess (or the amount of the additional required reduction, as the case may be) together with interest on such amount (at the same rate as is applied to determine the present value of payments under Section 280G of the Code or any successor thereto) from the date the reimbursable payment or benefit was received by the Participant to the date the same is repaid to the Company.

#### **Article 7. The Company's Payment Obligation**

**7.1. Payment of Obligations Absolute.** Except as provided in Sections 4.3(e) and 5.2 and in Article 6, the Company's obligation to make the payments and the arrangements provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Participant or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Company shall be final, and the Company shall not seek to recover all or any part of such payment from the Participant or from whomsoever may be entitled thereto, for any reasons whatsoever, except as otherwise provided in Article 6 or Article 9.

Participants shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Plan, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Plan, except to the extent provided in Section 4.4(d).

**7.2. Contractual Right to Benefits.** This Plan establishes and vests in each Participant a contractual right to the benefits to which he or she is entitled hereunder. The Company expressly waives any ability, if possible, to deny liability for any breach of its contractual commitment hereunder upon the grounds of lack of consideration, accord and satisfaction or any other defense. In any dispute arising after a Change in Control as to whether the Participant is entitled to benefits under this Plan, there shall be a presumption that the Participant is entitled to such benefits and the burden of proving otherwise shall be on the Company. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

**7.3. Pension Plans; Duplicate Benefits.** All payments, benefits and amounts provided under this Plan shall be in addition to and not in substitution for any pension rights under the Company's tax-qualified pension plan, supplemental retirement plans, nonqualified deferred compensation plans, and any disability, workers' compensation or other Company benefit plan distribution that a Participant is entitled to at his or her Effective Date of Termination. Notwithstanding the foregoing, this Plan shall not create an inference that any duplicate payments shall be required. No payments made pursuant to this Plan shall be considered compensation for purposes of any such benefit plan; provided that any amount paid pursuant to Section 4.4(c) shall not be subject to such limitation. Payment of a Participant's accrued and unpaid Base Salary and accrued vacation pay through the Participant's Effective Date of Termination shall be deemed to not duplicate any benefit contemplated by this Plan and shall not result in an offset pursuant to Section 4.3(e). Any acceleration of vesting, lapse of restrictions and/or payout occasioned by a Change in Control pursuant to the provisions of any long-term incentive plan and/or individual award agreement under such a long-term incentive plan shall be deemed to not duplicate any benefit contemplated by this Plan and shall not result in an offset pursuant to Section 4.3(e).

**Article 8. Trade Secrets; Non-Solicitation and Non-Disparagement**

By accepting participation in this Plan and again by receiving any benefits provided for by this Plan, each Participant shall be deemed to, and does, agree as follows:

- (a) In the course of performing his or her duties for the Company, the Participant will receive, and acknowledges that he or she has received, confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." The Participant agrees that she will not, either during his or her employment or subsequent to the termination of his or her employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Trade Secret of the Company or any of its affiliates to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company, without prior written authorization from the Company to do so. The Participant further agrees that if, at the time of the termination of his or her employment with the Company, he or she is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, the Participant will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this Section 8(a) shall be in addition to any protection afforded to Trade Secrets by law or equity and in addition to any protection afforded to Trade Secrets by any other agreement between the Participant and the Company.

- (b) For a period of one year following the termination of the Participant's employment with the Company, the Participant shall not, directly or indirectly through, aid, assistance or counsel, on the Participant's own behalf or on behalf of another person or entity (i) contact, solicit or offer to hire any person who was, within a period of six months prior to the termination of the Participant's employment with the Company, employed by the Company or one of its subsidiaries, or (ii) by any means issue or communicate any private or public statement that may be critical or disparaging of the Company or any of its affiliates, or any of their respective products, services, officers, directors or employees.

## **Article 9. Claims Procedures**

**9.1. Committee Review.** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from this Plan. Such claim shall be delivered to the Committee care of the Company in accordance with the notice provisions of Section 11.6. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within two hundred and seventy (270) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

**9.2. Notification of Decision.** The Committee shall consider a Claimant's claim pursuant to Section 9.1 within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
  - (i) the specific reason(s) for the denial of the claim, or any part of it;
  - (ii) specific reference(s) to pertinent provisions of this Plan upon which such denial was based;

- (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (v) a statement of the Claimant's right to seek arbitration pursuant to Section 9.4.

**9.3. Pre and Post-Change in Control Procedures.** With respect to claims made prior to the occurrence of a Change in Control, a Claimant's compliance with the foregoing provisions of this Article 9 is a mandatory prerequisite to a Claimant's right to commence arbitration pursuant to Section 9.4 with respect to any claim for benefits under this Plan. With respect to claims made upon and after the occurrence of a Change in Control, the Claimant may proceed directly to arbitration in accordance with Section 9.4 and need not first satisfy the foregoing provisions of this Article 9.

**9.4. Arbitration of Claims.** All claims or controversies arising out of or in connection with this Plan, that the Company may have against any Claimant, or that any Claimant may have against the Company or against its officers, directors, employees or agents acting in their capacity as such, shall, subject to the initial review provided for in the foregoing provisions of this Article 9 that are effective with respect to claims brought prior to the occurrence of a Change in Control, be resolved through arbitration as provided in this Section 9.4. The decision of an arbitrator on any issue, dispute, claim or controversy submitted for arbitration, shall be final and binding upon the Company and the Claimant and that judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. The arbitrator shall review *de novo* any claim previously considered by the Committee pursuant to Section 9.1.

All expenses of such arbitration, including the fees and expenses of the counsel for the Participant, shall be advanced and borne by the Company; provided, however, that if it is finally determined that the Claimant did not commence the arbitration in good faith and had no reasonable basis therefore, the Claimant shall repay all advanced fees and expenses and shall reimburse the Company for its reasonable legal fees and expenses in connection therewith.

Except as otherwise provided in this procedure or by mutual agreement of the parties, any arbitration shall be administered: (1) in accordance with the then-current Model Employment Arbitration Procedures of the American Arbitration Association ("AAA") before an arbitrator who is licensed to practice law in the state in which the arbitration is convened; or (2) if locally available, the Judicial Arbitration & Mediation Services, Inc. ("JAMS"), in accordance with the JAMS procedures then in effect. The party who did not initiate the claim can designate between JAMS or AAA (the "Tribunal"). The arbitration shall be held in the city in which the Claimant is or was last employed by the Company in the nearest Tribunal office or at a mutually agreeable location. Pre-hearing and post-hearing procedures may be held by telephone or in person as the arbitrator deems necessary.

The arbitrator shall be selected as follows: if the parties cannot agree on an arbitrator, the Tribunal (JAMS or AAA) shall then provide the names of nine (9) available arbitrators experienced in business employment matters along with their resumes and fee schedules. Each party may strike all

names on the list it deems unacceptable. If more than one common name remains on the list of all parties, the parties shall strike names alternately until only one remains. The party who did not initiate the claim shall strike first. If no common name remains on the lists of the parties, the Tribunal shall furnish an additional list or lists until an arbitrator is selected.

The arbitrator shall interpret this Plan, any applicable Company policy or rules and regulations, any applicable substantive law (and the law of remedies, if applicable) of the state in which the claim arose, or applicable federal law. In reaching his or her decision, the arbitrator shall have no authority to change or modify any lawful Company policy, rule or regulation, or this Plan. The arbitrator, and not any federal, state or local court or agency, shall have exclusive and broad authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Plan, including but not limited to, any claim that all or any part of this Plan is voidable.

The arbitrator shall have authority to entertain a motion to dismiss and/or motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

Each party shall have the right to take the deposition of one individual and any expert witness(es) designated by another party. Each party shall also have the opportunity to obtain documents from another party through one request for production of documents. Additional discovery may be had only when the arbitrator so orders upon a showing of substantial need. Any disputes regarding depositions, requests for production of documents or other discovery shall be submitted to the arbitrator for determination.

Each party shall have the right to subpoena witnesses and documents for the arbitration hearing by requesting a subpoena from the arbitrator. Any such request shall be served on all other parties, who shall advise the arbitrator in writing of any objections that the party may have to issuance of the subpoena within ten (10) calendar days of receipt of the request.

At least thirty (30) calendar days before the arbitration, the parties must exchange lists of witnesses, including any expert(s), and copies of all exhibits intended to be used at the arbitration.

#### **Article 10. Successors and Assignment**

**10.1. Successors to the Company.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Company or of any division or subsidiary thereof (the business and/or assets of which constitute at least fifty percent (50%) of the total business and/or assets of the Company) to expressly assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if such succession had not taken place. Failure of the Company to obtain such assumption and agreement in a written instrument prior to the effective date of any such succession shall be a breach of this Plan and shall entitle Participants to compensation from the Company in the same amount and on the same terms as they would be entitled to hereunder if they had terminated their employment with the Company voluntarily for Good Reason. Except for the purpose of implementing the foregoing, the date on which any such succession becomes effective shall be deemed a Participant's Effective Date of Termination if the Participant so elects, but any delay or failure by a Participant to so elect shall not be a waiver or release of any rights hereunder which may be asserted at any time.

**10.2. Assignment by the Participant.** This Plan shall inure to the benefit of and be enforceable by each Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If a Participant dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid to the Participant's Beneficiary in accordance with the terms of this Plan. If the Participant has not named a Beneficiary, then such amounts shall be paid to the Participant's devisee, legatee, or other designee, or if there is no such designee, to the Participant's estate.

**Article 11. Miscellaneous**

**11.1. Employment Status.** Except as may be provided under any other written agreement between a Participant and the Company, the employment of the Participant by the Company is "at will," and, prior to the effective date of a Change in Control, may be terminated by either the Participant or the Company at any time, subject to applicable law.

**11.2. Beneficiaries.** Each Participant may designate one or more persons or entities as the primary and/or contingent Beneficiaries of any Severance Benefits owing to the Participant under this Plan. Participants may make or change such designation at any time, provided that any designation or change thereto must be in the form of a signed writing acceptable to and received by the Committee.

**11.3. Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**11.4. Severability.** In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included. Further, the captions of this Plan are not part of the provisions hereof and shall have no force and effect.

**11.5. Modification.** No provision of this Plan may be modified, waived, or discharged unless as to a Participant such modification, waiver, or discharge is agreed to in writing and signed by each affected Participant and by an authorized member of the Committee or its designee, or by the respective parties' legal representatives and successors.

**11.6. Notice.** For purposes of this Plan, notices, including a Notice of Termination, and all other communications provided for in this Plan shall be in writing and shall be deemed to have been duly given when delivered or on the date stamped as received by the U.S. Postal Service for delivery by certified or registered mail, postage prepaid and addressed: (i) if to the Participant, to his latest address as reflected on the records of the Company, and (ii) if to the Company: Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067, Attn: Chief Human Resources Officer, or to such other address as the Company may furnish to the Participant in writing with specific reference to this Plan and the importance of the notice, except that notice of change of address shall be effective only upon receipt.

**11.7. Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of California shall be the controlling law in all matters relating to this Plan. Any statutory reference in this Plan shall also be deemed to refer to all applicable final rules and final regulations promulgated under or with respect to the referenced statutory provision.

**NORTHROP GRUMMAN CORPORATION  
MARCH 2004 SPECIAL AGREEMENT**

**THIS AGREEMENT** is made and entered into by and between Northrop Grumman Corporation, a Delaware corporation (hereinafter referred to as the "Company") and \_\_\_\_\_ (hereinafter referred to as the "Executive").

**RECITALS**

The Board of Directors of the Company has approved the Company entering into a severance agreement with the Executive.

The Executive is a key executive of the Company.

Should the possibility of a Change in Control of the Company arise, the Board believes it imperative that the Company and the Board should be able to rely upon the Executive to continue in his position, and that the Company should be able to receive and rely upon the Executive's advice, if requested, as to the best interests of the Company and its stockholders without concern that the Executive might be distracted by the personal uncertainties and risks created by the possibility of a Change in Control.

Should the possibility of a Change in Control arise, in addition to his regular duties, the Executive may be called upon to assist in the assessment of such possible Change in Control, advise management and the Board as to whether such Change in Control would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

**NOW THEREFORE**, to assure the Company that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat, or occurrence of a Change in Control of the Company, and to induce the Executive to remain in the employ of the Company in the face of these circumstances and for other good and valuable consideration, the Company and the Executive agree as follows:

**Article 1. Term**

This Agreement shall be effective as of March 1, 2004 (the "Effective Date"). This Agreement will continue in effect through February 28, 2007. However, at the end of such three (3) year period and, if extended, at the end of each additional year thereafter, the term of this Agreement shall be extended automatically for one (1) additional year, unless the Committee delivers written notice at least six (6) months prior to the end of such term, or extended term, to the Executive that this Agreement will not be extended, and if such notice is timely given this Agreement will terminate at the end of the term then in progress; provided, however, that this provision for automatic extension shall have no application following a Change in Control.

However, in the event a Change in Control occurs during the original or any extended term, this Agreement will remain in effect for the longer of: (i) twenty-four (24) months beyond the month in which such Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to the



Executive. Any subsequent Change in Control (“Subsequent Change in Control”) that occurs during the original or any extended term shall also continue the term of this Agreement until the later of: (i) twenty-four (24) months beyond the month in which such Subsequent Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to the Executive; provided, however, that if a Subsequent Change in Control occurs, it shall only be considered a Change in Control under this Agreement if it occurs no later than twenty-four (24) months after the immediately preceding Change in Control or Subsequent Change in Control.

**Article 2. ERISA**

This Agreement is intended as part of a severance program of the Company that constitutes (i) a pension plan within the meaning of Section 3(2) of ERISA, and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA.

**Article 3. Definitions**

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

- (a) “Agreement” means this March 2004 Special Agreement.
- (b) “Base Salary” means the salary of record paid to the Executive by the Company as annual salary (whether or not deferred), but excludes amounts received under incentive or other bonus plans.
- (c) “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- (d) “Beneficiary” means the persons or entities designated or deemed designated by the Executive pursuant to Section 11.2.
- (e) “Board” means the Board of Directors of the Company.
- (f) “Cause” shall mean the occurrence of either or both of the following:
  - (i) The Executive’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 Executive in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Executive’s part shall be considered “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

(g) “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i) Any Person (other than those Persons in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this clause (i): (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

(ii) On any day after the Effective Date (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:

- (1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or
- (2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the

Controlling Parent's stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office.

"Initial Date" means the later of (1) the Effective Date or (2) the date that is two (2) years before the Measurement Date.

- (iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a "Business Combination"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).
- (iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the Effective Date constitute a Change in Control.

Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

- (h) "Code" means the United States Internal Revenue Code of 1986, as amended.
- (i) "Committee" means the Compensation and Management Development Committee of the Board, or any other committee appointed by the Board to perform the functions of the Compensation and Management Development Committee.
- (j) "Company" means Northrop Grumman Corporation, a Delaware corporation (including, for purposes of determining whether the Executive is employed by the Company, any and all subsidiaries specified by the Committee), or any successor thereto as provided in Article 10.
- (k) "Controlling Parent" means the Company's Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one "Parent," then "Controlling Parent" shall mean the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person.
- (l) "Disability" means disability as defined in the Company's long-term disability plan in which the Executive participates at the relevant time or, if the Executive does not participate in a Company long-term disability plan at the relevant time, as such term is defined in the Company's principal long-term disability plan that generally covers the Company's senior-level executives at that time.
- (m) "Effective Date" means March 1, 2004.
- (n) "Effective Date of Termination" means the date on which a Qualifying Termination occurs.
- (o) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (p) "Exchange Act" means the United States Securities Exchange Act of 1934, as amended.
- (q) "Executive" means the individual identified in the first sentence, and on the signature page, of this Agreement.

- (r) “Good Reason” means, without the Executive’s express written consent, the occurrence of any one or more of the following:
- (i) A material reduction in the nature or status of the Executive’s authorities, duties, and/or responsibilities, (when such authorities, duties, 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 an insubstantial and inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Executive; provided that if the Executive is a vice president, for purposes of the preceding phrase the Executive’s loss of vice president status (other than a promotion to a higher level officer) will constitute Good Reason. In addition, Good Reason will be deemed to exist if the Executive’s reporting relationship is diminished from the Executive’s reporting relationship in effect on the day immediately prior to the start of the Protected Period (for example, if the Executive reports directly to the Company’s Chief Executive Officer on the day immediately prior to the start of the Protected Period, Good Reason will be deemed to exist if the Executive’s reporting relationship is changed such that the Executive no longer reports directly to the Chief Executive Officer of the Company or any Parent or directly to the Board of Directors of the Company or any Parent).
  - (ii) A reduction by the Company in the Executive’s Base Salary as in effect on the Effective Date or as the same shall be increased from time to time.
  - (iii) A significant reduction by the Company of the Executive’s aggregate incentive opportunities under the Company’s short and/or long-term incentive programs, as such opportunities exist on the Effective Date, or as such opportunities may be increased after the Effective Date. For this purpose, a significant reduction in the Executive’s incentive opportunities shall be deemed to have occurred in the event his targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities are diminished by the Company from the levels and probability of attainment that existed as of the Effective Date.
  - (iv) The failure of the Company to maintain (x) the Executive’s relative level of coverage and accruals under the Company’s employee benefit and/or retirement plans, policies, practices, or arrangements in which the Executive participates as of the Effective Date, both in terms of the amount of benefits provided, and amounts accrued and (y) the relative level of the Executive’s participation in such plans, policies, practices, or arrangements on a basis at least as beneficial as, or substantially equivalent to, that on which the Executive participated in such plans immediately prior to the Effective Date. For this purpose, the Company may eliminate and/or modify existing programs and coverage levels; provided, however, that the Executive’s level of coverage under all such programs must be at least as great as is provided to executives who have the same or lesser levels of reporting responsibilities within the Company’s organization.

- (v) The failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement, as contemplated in Article 10.
- (vi) Any purported termination by the Company of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4.8 and for purposes of this Agreement, no such purported termination shall be effective.
- (vii) The Executive 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 Executive'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 (vii) more than ninety (90) days before such intended effective date.

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

- (s) "Parent" means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company's assets, directly or indirectly through one or more subsidiaries.
- (t) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.
- (u) "Qualifying Termination" has the meaning given to such term in Sections 4.3(a) and 4.3(b).
- (v) "Severance Benefits" means the payments and/or benefits provided in Section 4.4.

#### **Article 4. Severance Benefits**

**4.1. Right to Severance Benefits.** The Executive shall be entitled to receive from the Company Severance Benefits, as described in Section 4.4, if the Executive has incurred a Qualifying Termination.

The Executive shall not be entitled to receive Severance Benefits if his employment terminates (regardless of the reason) before the Protected Period (as such term is defined in Section 4.3(d)) corresponding to a Change in Control of the Company or more than twenty-four (24) months after the date of a Change in Control of the Company.

**4.2. Services During Certain Events.** In the event a Person begins a tender or exchange offer, circulates a proxy to stockholders of the Company, or takes other steps seeking to effect a Change in Control, the Executive agrees that he will not voluntarily leave the employ of the Company and will continue to render services until the later of (i) the date such Person has abandoned or terminated his or its efforts to effect a Change in Control, and (ii) the date that is six (6) months after a Change in Control has occurred. Notwithstanding the foregoing, the Company may terminate the Executive's employment for Cause at any time, and the Executive may terminate his employment at any time after the Change in Control for Good Reason.

**4.3. Qualifying Termination.**

- (a) Subject to Sections 4.3(e), 4.3(f), 4.5, 4.6 and 4.7, the occurrence of any one or more of the following events 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 shall constitute a "Qualifying Termination":
- (i) An involuntary termination of the Executive's employment by the Company for reasons other than Cause;
  - (ii) A voluntary termination of employment by the Executive for Good Reason;
  - (iii) A successor company fails or refuses to assume by written instrument the Company's obligations under this Agreement, as required by Article 10; or
  - (iv) The Company or any successor company repudiates or breaches any of the provisions of this Agreement.
- (b) Subject to Sections 4.3(e), the Executive shall also be deemed to have had a "Qualifying Termination" if each of the following conditions is satisfied:
- (i) A Change in Control of the Company occurs; and
  - (ii) At any time after the start of the Protected Period corresponding to such Change in Control and on or before the last day of the twelfth (12<sup>th</sup>) month following the month in which the Change in Control occurs, the Chief Executive Officer of the Company on the day immediately prior to the start of such Protected Period ceases for any reason (other than due to either (a) the death of the Chief Executive Officer, (b) the Chief Executive Officer's termination of employment due to his or her disability (within the meaning of the Company's long-term disability plan in which the Chief Executive Officer participates at the relevant time or, if the Chief Executive Officer does not participate in a Company long-term disability plan at the relevant time, as such term is defined in the Company's principal long-term disability plan that generally covers the Company's senior-level executives at that time), or (c) the Chief Executive Officer's termination of employment on account of reaching mandatory retirement age (as such age may be defined from time to time in policies adopted by the Company prior to the commencement of the Protected Period, and consistent with applicable law)) to be the Chief Executive Officer of the Company or of a Parent; and

- (iii) The Executive remains continuously employed by the Company through the last day of the twelfth (12<sup>th</sup>) month following the month in which the first Change in Control of the Company occurs; and
  - (iv) The Executive terminates employment with the Company (whether or not for Good Reason, but other than due to the Executive's death) during the thirteenth (13<sup>th</sup>) month following the month in which the first Change in Control of the Company occurs; and
  - (v) The Company does not have Cause to terminate the Executive's employment at the time of the Executive's termination; provided that if the Company intends to assert that it had Cause to terminate the Executive's employment it must promptly deliver a written Notice of Termination to the Executive pursuant to Section 11.6 setting forth its claimed basis for Cause even if such notice is delivered after the termination of employment by the Executive.
- (c) If more than one of the events set forth in Sections 4.3(a) and 4.3(b) occurs, such events shall constitute but a single Qualifying Termination and the Executive shall be entitled to but a single payment of the Severance Benefits.
- (d) 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.
- (e) Notwithstanding anything else contained herein to the contrary, the Executive's termination of employment on account of reaching mandatory retirement age, as such age may be defined from time to time in policies adopted by the Company prior to the commencement of the Protected Period, and consistent with applicable law, shall not be a Qualifying Termination.
- (f) Notwithstanding anything else contained herein to the contrary, the termination of the Executive's employment (or other events giving rise to Good Reason) shall not constitute a Qualifying Termination if there is objective evidence that, as of the commencement of the Protected Period, the Executive 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.
- (g) Notwithstanding anything else contained herein to the contrary (other than those provisions that contain an express exception to this Section 4.3(g)), the Executive's Severance Benefits under this Agreement shall be reduced by the severance benefits (including, without limitation, any other change-in-control severance benefits and any other severance benefits generally) that the Executive may be entitled to under any other plan, program, agreement or other arrangement with the Company (including, without limitation, any such benefits provided for by an employment agreement, a prior Northrop Grumman Corporation Special Agreement, a Northrop Grumman Corporation March 2000 Special Agreement, under the prior Northrop Grumman Corporation Change-In-Control Severance Plan, or under the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan); provided that if the Executive is otherwise entitled to receive Severance Benefits under this Agreement and severance benefits under the Northrop Grumman Corporation March 2004 Change-In-Control Severance Plan, benefits shall be paid under this Agreement rather than under such plan. For purposes of the foregoing, any cash severance benefits payable to the Executive under any other plan, program, agreement or other arrangement with the Company shall offset the cash severance benefits otherwise payable to the Executive under this Agreement on a dollar-for-dollar basis. For purposes of the foregoing, non-cash severance benefits to be provided to the Executive under any other plan, program, agreement or other arrangement with the Company shall offset any corresponding benefits otherwise to be provided to the Executive under this Agreement or, if there are no corresponding benefits otherwise to be provided to the Executive under this Agreement, the value of such benefits shall offset the

cash severance benefits otherwise payable to the Executive under this Agreement on a dollar-for-dollar basis. If the amount of other benefits to be offset against the cash severance benefits otherwise payable to the Executive under this Agreement in accordance with the preceding two sentences exceeds the amount of cash severance benefits otherwise payable to the Executive under this Agreement, then the excess may be used to offset other non-cash severance benefits otherwise to be provided to the Executive under this Agreement on a dollar-for-dollar basis. For purposes of this paragraph, the Company shall reasonably determine the value of any non-cash benefits.

**4.4. Description of Severance Benefits.** In the event that the Executive becomes entitled to receive Severance Benefits, as provided in Sections 4.1 and 4.3, the Company shall pay to the Executive and provide him or her with the following:

- (a) An amount equal to three (3) times the highest rate of the Executive's annualized Base Salary in effect at any time up to and including the Effective Date of Termination.
- (b) An amount equal to three (3) times the greater of: (i) the highest of the Executive's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for any one of the three (3) full fiscal years prior to the date of the Change in Control of the Company; or (ii) the Executive's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the Change in Control of the Company occurs. (The greater of the amount determined pursuant to clause (i) or clause (ii) in the preceding sentence with respect to the Executive is referred to as the Executive's "Bonus Amount.") Special bonuses or bonus enhancements that would otherwise be included for purposes of the calculation pursuant to the first sentence of this Section 4.4(b), but that are related to a merger, acquisition, consolidation, reorganization, spin-off or similar event and that are not part of the Company's customary on-going program of Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) bonuses shall be excluded for purposes of such calculation.
- (c) An amount in settlement of the Executive's bonus opportunity under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the fiscal year in which the Effective Date of Termination occurs, such amount determined as follows:
  - (i) If the Effective Date of Termination occurs in the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the sum of:
    - (A) the greater of (X) or (Y) multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year through

the date of the Change in Control of the Company and the denominator of which is three hundred sixty-five (365), where (X) is the Executive's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year and (Y) is the amount of bonus that the Executive would be entitled to under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year assuming that the Executive's employment had not terminated and based on performance through the date of the Change in Control of the Company relative to the pre-approved performance goals for that year; plus

- (B) the Executive's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year following the date of the Change in Control of the Company through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (ii) If the Effective Date of Termination occurs in a fiscal year following the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the Executive's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year in which the Effective Date of Termination occurs through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (d) A continuation of the Executive's medical coverage, dental coverage, and group term life insurance for the Executive, his spouse, and his eligible dependents for the three (3) years following the Executive's Effective Date of Termination; provided that such continuation of coverage shall run concurrently with COBRA continuation or similar state law continuation periods; and provided further that the continuation of such coverage shall be discontinued prior to the end of the three (3) year period in the event the Executive has available substantially similar benefits from a subsequent employer, as reasonably determined by the Committee. Except as provided in the next sentence, such benefits shall be provided to the Executive at the same premium cost, and at the same coverage level, as in effect as of the Executive's Effective Date of Termination. However, in the event the premium cost and/or level of coverage shall change for all employees of the Company, the cost and/or coverage level, likewise, shall change for the Executive in a corresponding manner. The continuation of coverage for the period contemplated by this Section 4.4(d) shall be coordinated with and paid secondary to any benefits that the Executive, his spouse, or his dependent receives from another employer or from Medicare (following the Executive's, his spouse's, and/or his dependent's entitlement to Medicare benefits) to the maximum extent permissible under relevant law. Notwithstanding the foregoing

provisions of this Section 4.4(d), if the Executive is eligible to commence benefits under the Company's Special Officer Retiree Medical Plan ("SORMP") as of the Effective Date of Termination, then the Executive shall receive medical and dental continuation coverage pursuant to the SORMP instead of the continuation coverage contemplated by the foregoing provisions of this Section 4.4(d). Any other continuation of medical, dental, or group term life insurance that the Executive may otherwise be entitled to upon or following his Effective Date of Termination in accordance with the express terms of a Company welfare benefit plan shall not give rise to an offset pursuant to Section 4.4(g) and shall not be deemed to duplicate the benefits of the continuation coverage contemplated by this Section 4.4(d).

- (e) A lump-sum cash amount equal to (i) minus (ii), with (i) and (ii) determined as follows:
- (i) equals the actuarial present value equivalent of the aggregate benefits accrued by the Executive as of his Effective Date of Termination under the qualified defined benefit pension plan or plans in which the Executive participates (the "qualified plan"), and under any and all supplemental defined benefit retirement plans in which the Executive participates, calculated as if the Executive's employment continued for three (3) full years following the Executive's Effective Date of Termination (*i.e.*, the Executive receives three (3) additional years of vesting and benefit accruals, including, if the Executive is a participant in a cash balance plan, three years of projected post-termination interest credits based on the interest rate in affect at termination, and his age is also increased three (3) years from his age as of his Effective Date of Termination); provided, however, that for purposes of determining "Final Average Pay" under such plans, the Executive's actual pay history as of the Effective Date of Termination shall be used; and
  - (ii) equals the actuarial present value equivalent of the aggregate benefits payable to the Executive as of his Effective Date of Termination under the qualified plan and under any and all supplemental defined benefit retirement plans in which the Executive participates, calculated assuming that the Executive retired and went into pay status under the terms of such plans on or as soon as possible after his Effective Date of Termination.

The intent of this Section 4.4(e) is that the qualified plan and any supplemental defined benefit retirement plan benefits will be paid in the normal course under the terms of those plans, with the additional benefits payable as a result of the imputation of age and service under this provision being paid from this Agreement. The Executive shall also be entitled to an additional three (3) years of age and service to count towards eligibility under one or more of the Company retiree medical programs for which the Executive would have been eligible absent any such termination.

- (f) Reimbursement by the Company for the costs of all outplacement services obtained by the Executive within the one (1) year period after the Effective Date of Termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Executive's Base Salary as of the Effective Date of Termination.
- (g) An amount equal to three (3) times the greater of: (i) the annual value of the perquisites provided to the Executive under the Company's Executive Perquisite Program as such program is in effect at the start of the Protected Period corresponding to the Change in Control of the Company, or (ii) the annual value of the perquisites provided to the Executive under the Company's Executive Perquisite Program as such program is in effect immediately before the Effective Date of Termination. The Company shall determine the annual value of such perquisites on a reasonable basis. This Section 4.4(g) is not intended to provide for the duplication of any welfare benefits that are otherwise provided by Section 4.4(d) or which would otherwise continue for three (3) years or more following the Executive's Effective Date of Termination. For example, if a welfare benefit otherwise provided by Section 4.4(d) is also included in the Executive Perquisite Program, such welfare benefit shall be excluded from the Executive Perquisite Program for purposes of the calculations pursuant to this Section 4.4(g).

**4.5. Termination for Total and Permanent Disability.** Except as provided in Section 4.3(b), termination of the Executive's employment due to Disability is not a Qualifying Termination. However, if immediately prior to the condition or event leading to, or the commencement of, the Disability of the Executive, the Executive would have experienced a Qualifying Termination if he had terminated at that time, then upon termination of his employment for Disability he shall be entitled to the benefits provided by this Agreement for a Qualifying Termination.

**4.6. Termination for Retirement or Death.** Termination of the Executive's employment due to death or, except as provided in Section 4.3(b), retirement is not a Qualifying Termination. However, if immediately prior to the Executive's retirement (but not death), the Executive would have experienced a Qualifying Termination if he had terminated at that time, then upon his retirement he shall (subject to Section 4.3(e)) be entitled to the benefits provided by this Agreement for a Qualifying Termination.

**4.7. Termination for Cause or by the Executive Other Than for Good Reason** Termination of the Executive's employment by the Company for Cause or, except as provided in Section 4.3(b), by the Executive other than for Good Reason does not constitute a Qualifying Termination.

**4.8. Notice of Termination.** Any termination by the Company for Cause or by the Executive for Good Reason shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

**Article 5. Form and Timing of Severance Benefits; Tax Withholding; Funding of Rabbi Trust**

**5.1. Form and Timing of Severance Benefits.** The Severance Benefits described in Section 4.4(a), 4.4(b), 4.4(c), 4.4(e), and 4.4(g) shall be paid in cash to the Executive in a single lump sum as soon as practicable following the Effective Date of Termination, but in no event beyond thirty (30) days from such date.

**5.2. Withholding of Taxes.** The Company shall be entitled to withhold from any amounts payable under or pursuant to this Agreement all taxes as legally shall be required (including, without limitation, any United States Federal taxes, and any other state, city, or local taxes).

**5.3. Funding of Rabbi Trust.** To the extent the Company is obligated to make a contribution to any rabbi trust, pursuant to the express terms of such trust, upon or with respect to a Protected Period or the occurrence of a Change in Control, the Company shall make such required contribution in accordance with the terms of such trust.

**Article 6. Excise Tax Gross-Up**

**6.1. Equalization Payment.** If upon or following a Change in Control, the tax imposed by Section 4999 of the Code or any similar or successor tax (the "Excise Tax") applies, solely because of the Change in Control, to any payments, benefits and/or amounts received by the Executive as Severance Benefits or otherwise, including, without limitation, any fees, costs and expenses paid under Article 9 of this Agreement and/or any amounts received or deemed received, within the meaning of any provision of the Code, by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Company's incentive plans, including without limitation, the 2001 Long-Term Incentive Stock Plan, the 1993 Long Term Incentive Stock Plan, the 1987 Long Term Incentive Plan and the 1981 Long-Term Incentive Plan, the Company shall pay in cash to the Executive or for the Executive's benefit as provided below an additional amount or amounts (the "Gross-Up Payment(s)") such that the net amount retained by the Executive after the deduction of any Excise Tax on such payments, benefits and/or amounts so received and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section 6.1 shall be equal to such payments, benefits and/or amounts so received had they not been subject to the Excise Tax. Such payment(s) shall be made by the Company to the Executive or applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such payments, benefits and/or amounts so received, and may be satisfied by the Company making a payment or payments on Executive's account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such payment, benefit and/or amount.

**6.2. Calculation of Gross-Up Payment.** The determination of whether a Gross-Up Payment is required pursuant to this Article 6 and the amount of any such Gross-Up Payment shall be determined in writing (the "Determination") by a nationally-recognized certified public

accounting firm selected by the Company (the "Accounting Firm"). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Company and the Executive within twenty (20) days of the Effective Date of Termination. Within twenty (20) days following delivery of the Accounting Firm's Determination, the Executive shall have the right, at the Company's expense, to obtain the opinion of an "outside counsel," which opinion need not be unqualified, which sets forth: (i) the amount of the Executive's "annualized includible compensation for the base period" (as defined in Code Section 280G(d) (1)); (ii) the present value of the Total Payments; (iii) the amount and present value of any "excess parachute payment;" and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Company, a firm of nationally-recognized executive compensation consultants. The outside counsel's opinion shall be binding upon the Company and the Executive and shall constitute the "Determination" for purposes of this Article 6 instead of the initial determination by the Accounting Firm. The Company shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm's and, if applicable, the executive compensation consultant's reasonable and customary fees for rendering such opinion. For purposes of this Section 6.2, "outside counsel" means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Company must approve the Executive's selection, which approval shall not be unreasonably withheld.

**6.3. Computation Assumptions.** For purposes of determining whether any payments, benefits and/or amounts, including amounts paid as Severance Benefits, will be subject to Excise Tax, and the amount of any such Excise Tax:

- (a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon a Change in Control of the Company or the Executive's termination of employment (whether pursuant to this Agreement or any other plan, arrangement or agreement with the Company, or with any Person whose actions result in a Change in Control of the Company or any Person affiliated with the Company or such Persons) shall be combined to determine whether the Executive has received any "parachute payment" within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any "excess parachute payments" within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;
- (b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

- (c) The compensation and benefits provided for in Section 4.4 herein, and any other compensation earned prior to the Effective Date of Termination by the Executive pursuant to the Company's compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change in Control), shall for purposes of the calculation pursuant to this Section 6.3 be deemed to be reasonable; and
- (d) The Executive shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive's share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the Effective Date of Termination, and shall take into account the maximum reduction in Federal income taxes that could be obtained from the deduction of such state and local taxes.

**6.4. Executive's Obligation to Notify Company.** The Executive shall promptly notify the Company in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Company of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Company notifies Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Company any information reasonably requested by the Company relating to such claim; (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company that is reasonably acceptable to Executive; (c) cooperate with the Company in good faith in order to effectively contest such claim; and (d) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section 6.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Company shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct the Executive



to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

**6.5. Subsequent Recalculation.** In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section 6.1, the Company shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section 6.1, then the Executive shall promptly pay to the Company (without interest) the amount of such excess.

#### **Article 7. The Company's Payment Obligation**

**7.1. Payment of Obligations Absolute.** Except as provided in Sections 4.3(g) and 5.2 and in Article 6, the Company's obligation to make the payments and the arrangements provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Executive or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Company shall be final, and the Company shall not seek to recover all or any part of such payment from the Executive or from whomsoever may be entitled thereto, for any reasons whatsoever, except as otherwise provided in Article 6 or Article 9.

The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Agreement, except to the extent provided in Section 4.4(d).

**7.2. Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder. The Company expressly waives any ability, if possible, to deny liability for any breach of its contractual commitment hereunder upon the grounds of lack of consideration, accord and satisfaction or any other defense. In any dispute arising after a Change in Control as to whether the Executive is entitled to benefits under this Agreement, there shall be a presumption that the Executive is entitled to such benefits and the burden of proving otherwise shall be on the Company. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

**7.3. Pension Plans; Duplicate Benefits.** All payments, benefits and amounts provided under this Agreement shall be in addition to and not in substitution for any pension rights under the Company's tax-qualified pension plan, supplemental retirement plans, nonqualified deferred compensation plans, and any disability, workers' compensation or other Company benefit plan distribution that the Executive is entitled to at his or her Effective Date of Termination. Notwithstanding the foregoing, this Agreement shall not create an inference that any duplicate payments shall be required. No payments made pursuant to this Agreement shall be considered compensation for purposes of any such benefit plan; provided that any amount paid pursuant to Section 4.4(c) shall not be subject to such limitation. Payment of the Executive's accrued and unpaid Base Salary and accrued vacation pay through the Executive's Effective Date of Termination shall be deemed to not duplicate any benefit contemplated by this Agreement and shall not result in an offset pursuant to Section 4.3(g). Any acceleration of vesting, lapse of restrictions and/or payout occasioned by a Change in Control pursuant to the provisions of any long-term incentive plan and/or individual award agreement under such a long-term incentive plan shall be deemed to not duplicate any benefit contemplated by this Agreement and shall not result in an offset pursuant to Section 4.3(g).

**Article 8. Trade Secrets; Non-Solicitation and Non-Disparagement**

By executing this Agreement and again by receiving any benefits provided for by this Agreement, the Executive agrees follows:

- (a) In the course of performing his or her duties for the Company, the Executive will receive, and acknowledges that he or she has received, confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." The Executive agrees that he or she will not, either during his or her employment or subsequent to the termination of his or her employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Trade Secret of the Company or any of its affiliates to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company, without prior written authorization from the Company to do so. The Executive further agrees that if, at the time of the termination of his or her employment with the Company, he or she is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, the Executive will return and surrender all such

documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this Section 8(a) shall be in addition to any protection afforded to Trade Secrets by law or equity and in addition to any protection afforded to Trade Secrets by any other agreement between the Executive and the Company.

- (b) For a period of one year following the termination of the Executive's employment with the Company, the Executive shall not, directly or indirectly through, aid, assistance or counsel, on the Executive's own behalf or on behalf of another person or entity (i) contact, solicit or offer to hire any person who was, within a period of six months prior to the termination of the Executive's employment with the Company, employed by the Company or one of its subsidiaries, or (ii) by any means issue or communicate any private or public statement that may be critical or disparaging of the Company or any of its affiliates, or any of their respective products, services, officers, directors or employees.

#### **Article 9. Claims Procedure**

**9.1. Committee Review.** The Executive or, in the event of the Executive's death, the Executive's Beneficiary (as applicable, the "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from this Agreement. Such claim shall be delivered to the Committee care of the Company in accordance with the notice provisions of Section 11.6. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within two hundred and seventy (270) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

**9.2. Notification of Decision.** The Committee shall consider a Claimant's claim pursuant to Section 9.1 within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
  - (i) the specific reason(s) for the denial of the claim, or any part of it;

- (ii) specific reference(s) to pertinent provisions of this Agreement upon which such denial was based;
- (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (v) a statement of the Claimant's right to seek arbitration pursuant to Section 9.4.

**9.3. Pre and Post-Change in Control Procedures.** With respect to claims made prior to the occurrence of a Change in Control, a Claimant's compliance with the foregoing provisions of this Article 9 is a mandatory prerequisite to a Claimant's right to commence arbitration pursuant to Section 9.4 with respect to any claim for benefits under this Agreement. With respect to claims made upon and after the occurrence of a Change in Control, the Claimant may proceed directly to arbitration in accordance with Section 9.4 and need not first satisfy the foregoing provisions of this Article 9.

**9.4. Arbitration of Claims.** All claims or controversies arising out of or in connection with this Agreement, that the Company may have against any Claimant, or that any Claimant may have against the Company or against its officers, directors, employees or agents acting in their capacity as such, shall, subject to the initial review provided for in the foregoing provisions of this Article 9 that are effective with respect to claims brought prior to the occurrence of a Change in Control, be resolved through arbitration as provided in this Section 9.4. The decision of an arbitrator on any issue, dispute, claim or controversy submitted for arbitration, shall be final and binding upon the Company and the Claimant and that judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. The arbitrator shall review *de novo* any claim previously considered by the Committee pursuant to Section 9.1.

All expenses of such arbitration, including the fees and expenses of the counsel for the Executive, shall be advanced and borne by the Company; provided, however, that if it is finally determined that the Claimant did not commence the arbitration in good faith and had no reasonable basis therefore, the Claimant shall repay all advanced fees and expenses and shall reimburse the Company for its reasonable legal fees and expenses in connection therewith.

Except as otherwise provided in this procedure or by mutual agreement of the parties, any arbitration shall be administered: (1) in accordance with the then-current Model Employment Arbitration Procedures of the American Arbitration Association ("AAA") before an arbitrator who is licensed to practice law in the state in which the arbitration is convened; or (2) if locally available, the Judicial Arbitration & Mediation Services, Inc. ("JAMS"), in accordance with the JAMS procedures then in effect. The party who did not initiate the claim can designate between

JAMS or AAA (the "Tribunal"). The arbitration shall be held in the city in which the Claimant is or was last employed by the Company in the nearest Tribunal office or at a mutually agreeable location. Pre-hearing and post-hearing procedures may be held by telephone or in person as the arbitrator deems necessary.

The arbitrator shall be selected as follows: if the parties cannot agree on an arbitrator, the Tribunal (JAMS or AAA) shall then provide the names of nine (9) available arbitrators experienced in business employment matters along with their resumes and fee schedules. Each party may strike all names on the list it deems unacceptable. If more than one common name remains on the list of all parties, the parties shall strike names alternately until only one remains. The party who did not initiate the claim shall strike first. If no common name remains on the lists of the parties, the Tribunal shall furnish an additional list or lists until an arbitrator is selected.

The arbitrator shall interpret this Agreement, any applicable Company policy or rules and regulations, any applicable substantive law (and the law of remedies, if applicable) of the state in which the claim arose, or applicable federal law. In reaching his or her decision, the arbitrator shall have no authority to change or modify any lawful Company policy, rule or regulation, or this Agreement. The arbitrator, and not any federal, state or local court or agency, shall have exclusive and broad authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to, any claim that all or any part of this Agreement is voidable.

The arbitrator shall have authority to entertain a motion to dismiss and/or motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

Each party shall have the right to take the deposition of one individual and any expert witness(es) designated by another party. Each party shall also have the opportunity to obtain documents from another party through one request for production of documents. Additional discovery may be had only when the arbitrator so orders upon a showing of substantial need. Any disputes regarding depositions, requests for production of documents or other discovery shall be submitted to the arbitrator for determination.

Each party shall have the right to subpoena witnesses and documents for the arbitration hearing by requesting a subpoena from the arbitrator. Any such request shall be served on all other parties, who shall advise the arbitrator in writing of any objections that the party may have to issuance of the subpoena within ten (10) calendar days of receipt of the request.

At least thirty (30) calendar days before the arbitration, the parties must exchange lists of witnesses, including any expert(s), and copies of all exhibits intended to be used at the arbitration.

#### **Article 10. Successors and Assignment**

**10.1. Successors to the Company.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Company or of any division or subsidiary thereof (the business

and/or assets of which constitute at least fifty percent (50%) of the total business and/or assets of the Company) to expressly assume and agree to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform them if such succession had not taken place. Failure of the Company to obtain such assumption and agreement in a written instrument prior to the effective date of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as they would be entitled to hereunder if they had terminated their employment with the Company voluntarily for Good Reason. Except for the purpose of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Executive's Effective Date of Termination if the Executive so elects, but any delay or failure by the Executive to so elect shall not be a waiver or release of any rights hereunder which may be asserted at any time.

**10.2. Assignment by the Executive.** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid to the Executive's Beneficiary in accordance with the terms of this Agreement. If the Executive has not named a Beneficiary, then such amounts shall be paid to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

#### **Article 11. Miscellaneous**

**11.1. Employment Status.** Except as may be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will," and, prior to the effective date of a Change in Control, may be terminated by either the Executive or the Company at any time, subject to applicable law.

**11.2. Beneficiaries.** The Executive may designate one or more persons or entities as the primary and/or contingent Beneficiaries of any Severance Benefits owing to the Executive under this Agreement. The Executive may make or change such designation at any time, provided that any designation or change thereto must be in the form of a signed writing acceptable to and received by the Committee.

**11.3. Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**11.4. Severability.** In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Agreement, and this Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. Further, the captions of this Agreement are not part of the provisions hereof and shall have no force and effect.

**11.5. Modification.** No provision of this Agreement may be modified, waived, or discharged unless as to the Executive such modification, waiver, or discharge is agreed to in writing and signed by each affected Executive and by an authorized member of the Committee or its designee, or by the respective parties' legal representatives and successors.

**11.6. Notice.** For purposes of this Agreement, notices, including a Notice of Termination, and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or on the date stamped as received by the U.S. Postal Service for delivery by certified or registered mail, postage prepaid and addressed: (i) if to the Executive, to his latest address as reflected on the records of the Company, and (ii) if to the Company: Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067, Attn: Chief Human Resources Officer, or to such other address as the Company may furnish to the Executive in writing with specific reference to this Agreement and the importance of the notice, except that notice of change of address shall be effective only upon receipt.

**11.7. Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of California shall be the controlling law in all matters relating to this Agreement. Any statutory reference in this Agreement shall also be deemed to refer to all applicable final rules and final regulations promulgated under or with respect to the referenced statutory provision.

**IN WITNESS WHEREOF**, the parties have executed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Northrop Grumman Corporation

Executive

By: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Attest: \_\_\_\_\_

Print Name: \_\_\_\_\_  
\_\_\_\_\_

## SEPARATION AGREEMENT

- 1.0 PARTIES:** The parties to this Separation Agreement and General Release (“Agreement”) are RICHARD B. WAUGH, JR. (“Mr. Waugh”) and NORTHROP GRUMMAN CORPORATION (“Northrop Grumman” or “the Company”).
- 2.0 RECITALS:** This Agreement is made regarding the following facts:
- 2.1 Mr. Waugh is currently Northrop Grumman’s Corporate Vice President and Chief Financial Officer. He has decided to retire from employment effective December 1, 2003.
  - 2.2 Northrop Grumman has determined to offer Mr. Waugh special recognition benefits in view of his many significant contributions to the Company over his more than 25 years of employment, including his major role in helping to shape the Company through mergers and acquisitions.
  - 2.3 In consideration of these special recognition benefits, the Company will receive the benefit of the provisions of this Agreement, including a release of claims and further protection of its trade secrets.
  - 2.4 Mr. Waugh wishes to receive these special recognition benefits upon the terms and conditions set forth in this Agreement.
- 3.0 SPECIAL RECOGNITION BENEFITS:** In consideration for Mr. Waugh’s promise to abide by all of the terms of this Agreement, the Company agrees to provide the following Special Recognition Benefits to Mr. Waugh upon his retirement on December 1, 2003:
- 3.1 Special Recognition Retirement Payment: The Company will pay Mr. Waugh a lump sum cash payment of \$3,700,000 within 45 calendar days following his retirement date.
  - 3.2 Special Stock Award Vesting: The Company will amend certain grants of stock options and restricted performance stock rights it has previously granted to Mr. Waugh as follows:
    - *Restricted Performance Stock Rights.* Mr. Waugh was granted restricted performance stock right awards by Northrop Grumman in December 1998, August 2001 and August 2002 (together, the “RPSR Awards”). The terms of each RPSR Awards generally provide, in part, that if Mr. Waugh retires (as defined in the Guide to Administration applicable to the award) while employed by the Company or one of its subsidiaries (x) the target number of rights subject to the award will be pro rated based on the number of months in the applicable



performance period that Mr. Waugh was employed by the Company or a subsidiary, and (y) prorated payments with respect to the award will be made at the same time and on the same performance basis as if Mr. Waugh had not retired. The RPSR Awards are amended such that there will be no pro ration of the target number of rights subject to each award (that is, 100% of the target number of rights initially subject to the award shall remain subject to the award). Payments with respect to each RPSR Award will still be made at the same time and on the same performance basis as if Mr. Waugh had not retired.

- *Stock Options.* Mr. Waugh was granted stock options, which are currently not scheduled to vest on or before November 30, 2004, by Northrop Grumman in December 1998, August 2001, August 2002, and August 2003 (together, the "Covered Option Awards"). The terms of each Covered Option Award generally provide, in part, that if Mr. Waugh retires (as defined in the award certificate evidencing such option grant or the applicable Guide to Administration) while employed by the Company or one of its subsidiaries (x) the next succeeding installment of the option will vest and (y) all installments under the option which have vested as of Mr. Waugh's retirement date may be exercised by Mr. Waugh (or his permitted successor) until the fifth anniversary of Mr. Waugh's retirement, but in no event after the expiration date of the option or earlier termination in connection with a change in control as provided in the applicable Company stock plan under which the award was granted. Each Covered Option Award is amended such that (x) the next succeeding installment of the option will vest as of Mr. Waugh's retirement date (except as to the August 2003 option grant to Mr. Waugh as provided below), (y) any and all succeeding installments of the option will vest as of the date(s) that they would have otherwise vested had Mr. Waugh remained employed by the Company or one of its subsidiaries, and (z) all installments under the option which have vested as of Mr. Waugh's retirement date or which vest as described in the foregoing clause (y) may be exercised by Mr. Waugh (or his permitted successor) until the expiration of the maximum ten-year term of the option or the earlier termination of the option in connection with a change in control as provided in the applicable Company stock plan under which the award was granted. Clause (x) of the preceding sentence will not apply with respect to the Covered Option Award granted to Mr. Waugh in August 2003 as the next vesting installment of such award would vest on Mr. Waugh's retirement only if his retirement date was more than six months after the grant of such award; instead, such award shall continue to vest and be exercisable as provided in clauses (y) and (z) of the preceding sentence.

Except as expressly provided above, the other terms of Mr. Waugh's stock option, restricted stock right, and restricted performance stock

right awards granted by the Company, as set forth or referenced in the applicable award certificates, shall continue in effect. Without limiting the generality of the preceding sentence: (x) the remaining vesting installment of the restricted stock right award granted by Northrop Grumman to Mr. Waugh in November 1999 will become vested on Mr. Waugh's retirement date, and (y) the restricted performance stock right award granted by Northrop Grumman to Mr. Waugh in August 2003 shall terminate (without vesting) in accordance with its terms on Mr. Waugh's retirement date. Mr. Waugh's restricted performance stock rights, stock options, and restricted stock awards granted by the Company are, in the event of Mr. Waugh's death, transferable by the laws of descent and distribution. In the event of Mr. Waugh's death, Mr. Waugh's stock options granted by the Company shall continue to vest as if Mr. Waugh were alive and to be exercisable by Mr. Waugh's successor for the full period of time that Mr. Waugh would have been permitted to exercise such options had he not died.

- 3.3 **Continued Life and AD&D Coverage:** The Company will continue to provide Mr. Waugh with his current life and accidental death and dismemberment insurance coverage (or substantially similar coverage) for three years following his retirement at no cost to Mr. Waugh; provided, however, that Mr. Waugh shall be responsible for any taxes imposed as a result of this Company paid coverage.
- 3.4 **Not Pensionable Earnings:** Mr. Waugh acknowledges and agrees that none of the Special Recognition Benefits being provided to him pursuant to this Agreement are eligible compensation under any pension, savings, supplemental retirement, deferred compensation or similar plan.
- 4.0 **RETIREMENT; RETIREE MEDICAL BENEFITS; ICP BONUS:** Mr. Waugh will retire from employment on December 1, 2003. His last day on the payroll will be November 30, 2003. Following his retirement, Mr. Waugh will receive retiree medical benefits from the Special Officer Retiree Medical Plan ("SORMP"), pursuant to which his cost for such coverage shall remain fixed at the same cost he is paying as of his last day on the payroll. Under the terms of the SORMP, Mr. Waugh's spouse at the time of his separation from employment will continue to have medical coverage in the event he should predecease her following his retirement. Mr. Waugh will also receive a bonus under the terms of the Incentive Compensation Plan for the full performance year of 2003 consistent with bonuses paid to peer officers for that year, with such bonus to be paid in February or March of 2004.
- 5.0 **COMPLETE RELEASE OF CLAIMS BY MR. WAUGH:** In exchange for the consideration described in Section 3, Mr. Waugh RELEASES and PROMISES NOT TO SUE the Company. For purposes of this Section 5.0 Release, the term "Company" includes not only Northrop Grumman Corporation,

but also any parents, subsidiaries, affiliates, predecessors, successors, assigns, related companies or entities, its or their employee benefit plans, trustees, fiduciaries and administrators, and any and all of its and their respective past or present officers, directors, partners, insurers, agents, representatives, attorneys, accountants, actuaries and employees. For purposes of this Section 5.0 Release, the term “Mr. Waugh” includes not only Mr. Waugh himself, but also his heirs, spouses or former spouses, executors, administrators, agents, attorneys, representatives or assigns. Except as set forth in Section 5.5, this Release extinguishes all of Mr. Waugh’s claims, demands or causes of action, known or unknown, against the Company, based on anything occurring on or before the date Mr. Waugh signs this Agreement.

- 5.1 This Release includes, but is not limited to, claims relating to Mr. Waugh’s employment or his separation from employment with the Company, any rights of continued employment, reinstatement or reemployment by the Company, claims relating to or arising under Company dispute resolution procedures, claims for any costs or attorneys’ fees incurred by Mr. Waugh, and claims for any severance benefits under any Company plan, program or agreement.
- 5.2 This Release includes, but is not limited to, claims arising under the Age Discrimination in Employment Act, the Employee Retirement Income Security Act, the False Claims Act, the Family and Medical Leave Act, Executive Order No. 11246, the Civil Rights Act of 1991, and 42 U.S.C. §1981. It also includes, but is not limited to, claims under Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination in employment based on disability, and retaliation; the California Fair Employment and Housing Act, which prohibits discrimination based on race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, marital status, sex, age, or sexual orientation, and discrimination; or any other federal, state or local laws or regulations prohibiting employment discrimination or retaliation, whether such claim be based upon an action filed by Mr. Waugh or by any governmental agency.
- 5.3 This Release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to the Company’s personnel policies or employee handbooks, or any oral or written representations or statements made by officers, directors, lawyers, employees or agents of the Company, past and present, or under any state or federal law regulating wages, hours, compensation or employment, or any claim for retaliation, wrongful discharge, breach of contract (including any employment agreement), breach of the implied covenant of good faith

and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

5.4 Mr. Waugh waives and gives up all rights given by §1542 of the California Civil Code, which provides as follows:

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

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

5.5 However, this Release does not include any rights Mr. Waugh may have: (1) to test the knowing and voluntary nature of this Agreement under the Older Workers Benefit Protection Act or (2) to workers' compensation benefits; (3) to earned, banked or accrued but unused vacation pay; (4) to vested benefits under any pension or savings plan; (5) to continued benefits in accordance with COBRA; (6) to unemployment insurance; (7) for indemnification from the Company; (8) under the Company's Directors and Officers liability insurance policies; (9) under any stock option or restricted stock grant provided to him; (10) as a shareholder of Northrop Grumman; or (11) which may arise after the date Mr. Waugh executes this Agreement.

**6.0 RELEASE OF CLAIMS BY NORTHROP GRUMMAN:** In exchange for Mr. Waugh's promises contained herein, the Company RELEASES and PROMISES NOT TO SUE Mr. Waugh, but only with respect to any claims known by the Company at the time it signs this Agreement, but also any parents, subsidiaries, affiliates, predecessors, successors, assigns, related companies or entities. For purposes of this Section 6.0 Release, the term "Mr. Waugh" includes not only Mr. Waugh himself, but also his heirs, spouses or former spouses, executors, administrators, agents, attorneys, representatives or assigns. This Release extinguishes all of the Company's known claims, demands or causes of action against Mr. Waugh, based on anything known to the Company occurring on or before the date the Company signs this Agreement. However, the Company is not releasing Mr. Waugh from any claims unknown to it at the time it signs this Agreement, and is not releasing any rights or claims it may have pursuant to §1542 of the California Civil Code, which reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing

the release, which if known by him must have materially affected his settlement with the debtor.”

- 7.0 TRADE SECRETS:** In the course of performing his duties for the Company, Mr. Waugh has received confidential information, including without limitation, information not available to competitors relating to the Company’s existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as “Trade Secrets.” Mr. Waugh agrees that he will not, either during his employment or subsequent to the termination of his employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Northrop Grumman Trade Secrets to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company; provided, however, that the foregoing shall not preclude Mr. Waugh from complying with due legal process or governmental inquiry or from taking actions or making disclosures while employed by the Company in good faith performance of his duties and obligations hereunder. Mr. Waugh further agrees that if, at the time of his separation from employment with the Company, he is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, he will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this paragraph shall be in addition to any protection afforded to Trade Secrets by law or equity, and in addition to any protection afforded by prior Trade Secrets agreements entered into with Mr. Waugh.
- 8.0 ARBITRATION:** If either the Company or Mr. Waugh decides to sue the other over the enforceability of this Agreement, or for violating this Agreement, all such claims will be determined through final and binding arbitration, rather than through litigation in court. The arbitration will take place in the State of California, using the rules of the Judicial Arbitration and Mediation Service. If the Company or Mr. Waugh wants immediate relief, before the arbitration is finished, then either party may go to a court with jurisdiction over the dispute, and ask the court for provisional injunctive or other equitable relief until the arbitrator has issued an award or the dispute otherwise resolved. Judgment may be entered on the arbitrator’s award in any court having jurisdiction.
- 9.0 FULL DISCLOSURE:** Mr. Waugh acknowledges that he is not aware of, or has fully disclosed to the Company any matters for which he was responsible or came to his attention as an employee, which might give rise to any claim or cause of action against the Company, or the Company’s subsidiaries, affiliates, successors, predecessors, assigns, officers, directors, employees and/or agents. Mr. Waugh has reported to the Company all work-related injuries, if any, that he has suffered or sustained during his employment with the Company.

**10.0 NON-SOLICITATION AND NON-DISPARAGEMENT:**

- A. Mr. Waugh shall not, directly or indirectly, through aid, assistance or counsel, on his own behalf or on behalf of another person or entity (i) for a period of one year following the termination of Mr. Waugh's employment with the Company, solicit or offer to hire any person who was, within a period of six months prior to Mr. Waugh's separation from employment, employed by the Company, or (ii) by any means issue or communicate any public statement that may be critical or disparaging of the Company, its products, services, officers, directors or employees; provided the foregoing shall not apply to truthful statements made in compliance with legal process or governmental inquiry.
- B. The Company shall not by any means issue or communicate any public statements that may be critical or disparaging of Mr. Waugh; provided the foregoing shall not apply to truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements.

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

**12.0 PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT; ADVICE OF COUNSEL:** As required by the Older Workers Benefit Protection Act, Mr. Waugh agrees and understands that he has been given a period of twenty-one (21) calendar days from his receipt of this Agreement to review and consider this Agreement before signing it. Mr. Waugh further understands that he may use as much of this review period as he wishes prior to signing; he can sign this Agreement at any time prior to the expiration of the twenty-one (21) calendar day period. Mr. Waugh is advised and encouraged to consult with his own legal counsel prior to signing this Agreement.

**13.0 RIGHT TO REVOKE AGREEMENT:** Mr. Waugh may revoke this Agreement within seven (7) calendar days of signing it. Revocation can be made by delivering a written notice of revocation to Mr. J. Michael Hateley, Corporate Vice President and Chief Human Resources Officer, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, CA 90067. For this revocation to be effective, written notice must be received by Mr. Hateley no later than 5:00 PM PST on the seventh (7<sup>th</sup>) calendar day after Mr. Waugh signs this Agreement. If Mr. Waugh revokes this Agreement, it shall

not be effective or enforceable, and Mr. Waugh will not receive the benefits described in Section 3 of this Agreement.

- 14.0 NON-ADMISSION OF LIABILITY:** Nothing contained herein shall be construed as an admission by either Mr. Waugh or by the Company of liability of any kind.
- 15.0 COOPERATION:** Mr. Waugh agrees that, for at least two years following his separation from Northrop Grumman, he will reasonably cooperate with Northrop Grumman requests for assistance in connection with serving as a witness or providing information as to matters connected with his prior employment with Northrop Grumman. If such cooperation requires travel outside the Los Angeles area, the Company will pay any actual and reasonable travel expenses incurred by Mr. Waugh in providing such cooperation consistent with its policy for reimbursing such expenses for actively employed officers of the Company. In addition, in the event that such cooperation involves substantial amounts of time, such cooperation shall be subject to further agreement providing for legally appropriate compensation.
- 16.0 SEVERABILITY:** The provisions of this Agreement are severable, and if any part of it is found to be illegal or invalid and thereby unenforceable, the validity of the remaining parts, terms or provisions shall not be affected and shall remain fully enforceable. The unenforceable part, term or provision shall be deemed not to be a part of this Agreement.
- 17.0 SOLE AND ENTIRE AGREEMENT:** This Agreement sets forth the entire agreement between the Company and Mr. Waugh, and fully supersedes any and all discussions, prior agreements or understandings between the parties pertaining to the subject matter of this Agreement; provided however, that any agreements between the Company and Mr. Waugh relating to protection of Company trade secrets or intellectual property shall not be superseded by this Agreement.
- 18.0 MODIFICATION:** Once this Agreement takes effect, it may not be cancelled or changed, unless done so in a document signed by both Mr. Waugh and an authorized Company representative.
- 19.0 GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the law of the State of California without regard to rules regarding conflicts of law.

**20.0 ADVICE OF COUNSEL; VOLUNTARY AGREEMENT:**

MR. WAUGH ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT

BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT **CAREFULLY**, THAT HE UNDERSTANDS IT, AND THAT HE IS VOLUNTARILY ENTERING INTO IT. MR. WAUGH UNDERSTANDS AND ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS HIS RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

DATED: October 13, 2002

BY: /s/ RICHARD B. WAUGH, JR.

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**RICHARD B. WAUGH, JR.**

DATED: October 16, 2003

BY: /s/ J. MICHAEL HATELEY

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**NORTHROP GRUMMAN CORPORATION**

TITLE: Corporate Vice President and Chief

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Human Resources and Administrative Officer

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**EMPLOYMENT AGREEMENT**

**1. PARTIES:** The parties to this Employment Agreement (hereafter referred to as this "Agreement") are **CHARLES H. NOSKI** (hereafter referred to as "Executive") and **NORTHROP GRUMMAN CORPORATION** (hereafter referred to as "Northrop Grumman" or "the Company").

**2. EMPLOYMENT:** Northrop Grumman wishes to offer Executive employment as its Corporate Vice President and Chief Financial Officer, and Executive wishes to accept such employment, upon the terms and conditions set forth in this Agreement.

**3. TERM:** The term of this Agreement shall commence as of December 1, 2003 (the "Effective Date") and shall end at the close of business on the day before the fifth anniversary of the Effective Date, unless sooner terminated as hereinafter provided and subject to extension as provided in the next sentence. Commencing with the day before the fifth anniversary of the Effective Date and on each subsequent annual anniversary of such date, the term of this Agreement shall automatically be extended for an additional one-year period unless the Executive or the Company has provided the other party hereto at least 120 days' prior written notice that the term of this Agreement shall not be so extended (or further extended, as the case may be). Notwithstanding anything else contained herein to the contrary, the term of this Agreement shall not extend beyond, and shall terminate on or before, the last day of the month in which the Executive attains his sixty-fifth (65th) birthday.

**4. POSITION AND DUTIES:** Executive shall serve as Corporate Vice President and Chief Financial Officer of the Company and shall be an elected officer of the Company throughout the term of this Agreement. Executive will also continue as a member of the Company's Board of Directors (the "Board") throughout the term of this Agreement (each such member, a "Director"). Executive also agrees to serve on any Company subsidiary Board of Directors to which he has been or may in the future be elected. Executive shall, during the term hereof:

A. be responsible to the Chief Executive Officer ("CEO") for the management and supervision of all financial matters of the Company and for providing for the financial growth and stability of the Company, and shall have such other duties and responsibilities as the CEO shall designate that are consistent with Executive's position as Corporate Vice President and Chief Financial Officer. Executive shall perform all of such duties and responsibilities in accordance with the legal directives of the CEO and in accordance with the practices and policies of the Company as in effect from time to time. While employed as Corporate Vice President and Chief Financial Officer of the Company, Executive shall report exclusively to the CEO.

B. devote all of his business time (excluding periods of vacations and absences made necessary because of illness, injury or other traditionally approved leave purposes), energy and skill in the performance of his duties with the Company; provided, however, that the foregoing will not prevent Executive from reasonably (i) participating in charitable, civic, educational, professional, community or industry affairs or serving on the boards of directors or advisory boards of other companies, and (ii) managing his and his family's personal investments.

**5. COMPENSATION AND BENEFITS:** During the term of this Agreement, the following terms shall apply:

A. **Base Salary:** Executive's base salary during the term of this Agreement shall be no less than \$750,000 per year, which amount shall be subject to periodic increases, but not decreases, in accordance with the Company's normal salary review process during and after March 2005.

B. **ICP Bonus:** Executive shall participate in the Incentive Compensation Plan ("ICP"), a bonus plan for certain elected officers of the Company. His ICP target bonus shall be at least 50% of his base salary. His actual bonus shall be adjusted upwards or downwards depending on the Company's performance and his performance in accordance with the terms of the ICP.

C. **Benefits:** Except as provided in Section 5.D, for the term of this Agreement, Executive shall participate in the Northrop Grumman welfare and pension plans in which Northrop Grumman's elected officers (not including the CEO) participate, as such plans may be amended from time to time. These plans currently include, but are not limited to, the Northrop Grumman Pension Plan (the "NG Pension Plan"), the Northrop Grumman Savings Plan and the Northrop Grumman Executive Medical Plan. Executive acknowledges that the NG Pension Plan was amended effective July 1, 2003 and that he will not be eligible for the grandfathered terms applicable to participants in the NG Pension Plan employed by the Company before such date but not those hired thereafter. Executive further acknowledges and agrees that with respect to retiree medical, he will not be able to select the Special Officer Retiree Medical Plan ("SORMP") in effect before October 1, 2003 but rather will be a participant in the SORMP in effect as of October 1, 2003.

D. **Special Pension Benefit:** Instead of participating in any of the CPC Supplemental Executive Retirement Program, the Northrop Grumman Supplemental Plan I or the ERISA Supplemental Program 2 (Appendix B under the Northrop Grumman Supplemental Plan 2) pension plans, Executive shall participate in the supplemental pension plan attached hereto as Exhibit A. With regard to Executive's qualified and non-qualified defined benefit pension plan benefits earned while employed by Hughes Electronics Corporation, its predecessors, or any affiliates of either, on written request of the Company, Executive shall inform the Company of the date such benefits commence, the amount of such benefits, and the form in which such benefits are distributed. For purposes of the Special Agreement referenced in Section 9 of this Agreement, the special pension benefit provided by this Section 5.D shall be considered a supplemental defined benefit retirement plan.

E. **Stock and Stock Options:** In addition to the special stock grants set forth in Section 6 of this Agreement, Executive shall be eligible to receive grants of stock and stock options under the Company's 2001 Long Term Incentive Stock Plan ("LTISP") in accordance with the Company's normal practice of awarding such grants to elected officers. Such grants shall be subject to the terms and conditions of the LTISP and the grant certificates to be provided to Executive to evidence such grants (which certificates shall be in substantially the same form as the forms of certificate customarily used by the Company for grants to elected officers, modified to reflect the special provisions herein (as applicable), including Sections 6.B and 6.C, and making reference to Executive's rights under Section 14 of this Agreement (which to the extent applicable shall override any other provisions in such certificates), and further modified to provide that if Executive ceases to be an employee but continues as a Director, any equity or equity-related awards or grants that would otherwise be forfeited upon such cessation of employment shall continue to vest while Executive is a Director, and the post-employment exercise period of any options shall commence when Executive ceases to be a Director) ("elected officer grant certificates").

F. **Early Retirement:** With respect to any employee benefit or equity plan or program in which Executive participates and as to which members of the Corporate Policy Council ("CPC") have rights or benefits upon early retirement, Executive shall have the same early retirement rights or benefits after having been employed by the Company or its affiliates for six or more years (unless treatment of Executive as an early retiree under any such plan or program is prohibited by applicable law, including any provision of the Internal Revenue Code creating adverse tax effects because of such treatment; in which case the Company shall provide benefits or rights with equivalent after-tax economic value to Executive in an alternative manner, including, for example, outside the plan or program).

**6. SPECIAL STOCK GRANTS:**

A. Executive shall be given the following special grants under the LTISP as of the Effective Date:

- 45,000 non-qualified stock options. The strike price of these options shall be the closing price of the Company's stock on the New York Stock Exchange as of the Effective Date;
- 33,000 restricted stock rights ("RSRs") that vest in equal annual installments over three years; and
- 24,000 restricted performance stock rights ("RPSRs"). The Performance Period for these RPSRs shall be January 1, 2004–December 31, 2006.

These special stock grants shall be governed by the LTISP and, except as set forth in this Section 6 and Section 14 of this Agreement, by the terms and conditions of the elected officer grant certificates.

B. The grant certificates with respect to stock options provided to Executive pursuant to Sections 5 and 6 of this Agreement shall substitute for the otherwise applicable definition of "Early Retirement":

"Early Retirement" means that the Grantee terminates employment after six or more years of service (other than in connection with a termination by the Company or a subsidiary for cause) and other than a Normal Retirement.

C. The grant certificates with respect to restricted performance stock rights provided to Executive pursuant to Sections 5 and 6 of this Agreement shall substitute for the otherwise applicable definition of "Retirement":

"Retirement" means that the Grantee terminates employment after six or more years of service (other than in connection with a termination by the Company or a subsidiary for cause).

**7. PERQUISITES:** For the term of this Agreement, Executive shall be eligible for Company perquisites that are, in the aggregate, no less favorable than the perquisites provided by the Company to any other elected officer (other than the CEO). The perquisites provided to the Company's elected officers (other than the CEO), as currently in effect, are listed on Exhibit B of this Agreement. The perquisites provided by the Company are subject to change from time to time. In addition, Executive shall be entitled to no less than four weeks vacation per year.

**8. RETIREE MEDICAL BENEFIT:** Executive shall be eligible to participate in the SORMP on the same terms and conditions as other elected officers, except that Executive's eligibility for, and election of, benefits under Section 1.03 of the SORMP shall be conditioned upon retiring from Northrop Grumman Corporation on or after six years of service (rather than age 55 with ten (10) years of service); provided, however, that if Executive's employment terminates at or after five years of service but before six years of service he shall be entitled to coverage (partially Company paid) under the SORMP commencing at age 65. In the event that the Executive terminates from employment at any time and is not immediately eligible to receive medical benefits under the SORMP, the Company will make the benefits otherwise provided under such program available to Executive and his eligible dependents (during the lifetime of each) without a medical exam, provided that the Executive (or, after his death, his spouse) reimburses the Company for the full cost (including employee and Company share) for such coverage; provided, however, that if such termination occurs after the Executive has more than five years of service but less than six, then when the Executive reaches age 65 the coverage shall be partially Company paid.

**9. SPECIAL AGREEMENT:** Executive shall be provided a March 2004 Special Agreement to provide him with protection in the event of a change in control of the Company, except that the term of the

Special Agreement shall commence as of December 1, 2003 instead of March 1, 2004. For purposes of the Special Agreement, Executive's title and position shall be Corporate Vice President and Chief Financial Officer and Director or any greater title or position he may then hold. The form of this Special Agreement is attached hereto as Exhibit C.

**10. TERMINATION OF EMPLOYMENT BY THE COMPANY:**

A. The Company shall have the right to terminate the term of this Agreement and Executive's employment at any time, with or without Cause, upon giving at least 10 day's advance written notice to the Executive of the date when such termination shall become effective. If the Company terminates Executive's employment without "Cause" (as that term is defined below) during the term of this Agreement, then Executive shall receive, within 30 days after he signs a release (substantially in the form of Exhibit D hereto) which is not revoked, the Accrued Obligations (as defined below) (with the exception of certain benefits under Accrued Obligations, which will be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Section 14 of this Agreement.

For purposes of this Agreement, "Cause" shall mean the occurrence of either or both of the following: (i) the willful misconduct by the Executive with regard to the Company that is significantly injurious to the Company, provided, however, that no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interests of the Company; or (ii) the conviction of the Executive of (or the pleading by the Executive of *nolo contendere* to) any felony (other than traffic related offenses or as a result of vicarious liability).

B. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless the provisions of this paragraph B are complied with. Executive shall be given written notice by the CEO of the intention to terminate him for Cause, and he shall then be entitled to a meeting before the Company's Board to present his position, provided he requests in writing such a meeting within ten calendar days of his receipt of the written notice from the CEO of the intention to terminate him. Following such a meeting, if Executive is then furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, Executive shall thereupon be terminated for Cause, which determination shall be subject to review by the arbitrator referred to in Section 25 of this Agreement on a de novo basis.

C. In the event that Executive is terminated for "Cause," Executive will be entitled to receive only (w) any unpaid base salary through the date of termination and any accrued and unpaid vacation; (x) any unpaid bonus for services rendered during the calendar year prior to the calendar year in which the termination occurs; (y) reimbursement for any unreimbursed expenses incurred through the date of termination; and (z) all other payments, benefits or fringe benefits to which Executive may be entitled subject to, and in accordance with, the terms of any applicable compensation arrangement or benefit, equity or fringe benefit plan or program or grant (including, but not limited to, any then vested stock options, RPSRs or RSRs or other equity or equity-related grants, rights under Company pension plans (including the special pension benefit referenced in Section 5.D) and the rights set forth in Section 8 hereof) (collectively, (w) through (z) are referred to as "Accrued Obligations"), and will not receive any of the Special Severance Benefits set forth in Section 14 of this Agreement.

**11. TERMINATION OF EMPLOYMENT BY DEATH OR DISABILITY OF EXECUTIVE:**

A. **Death:** In the event that Executive dies during the term of this Agreement, this Agreement shall automatically terminate as of the date of death without further obligation on the part of the Company, except that the Company shall pay to Executive's estate, within 30 days of death, the Accrued Obligations (with the exception of certain benefits under certain Accrued Obligations, which shall be paid as soon as administratively practicable), all of the Special Severance Benefits set forth in Section 14 of this Agreement and the continuation of benefits set forth in Sections 14.B, 14.C and 14.D shall apply to his eligible dependents commencing as of the date of death.

**B. Disability:** If the Executive's employment terminates by reason of his Disability (as defined below) during the term of this Agreement, this Agreement shall terminate without further obligation to Executive, except that the Company shall provide to Executive, within 30 days after he signs a release (substantially in the form of Exhibit D hereto) which is not revoked, the Accrued Obligations (with the exception of certain benefits under Accrued Obligations, which shall be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Section 14 of this Agreement. For purposes of this Agreement, "Disability" shall be defined as the inability of the Executive to perform his material duties hereunder due to the same or a related physical or mental injury, infirmity or incapacity for 180 days in any 365-day period. The Company may terminate the Executive for a Disability as of the end of the aforementioned period or at any time thereafter during which the Disability continues upon 30 days prior written notice provided the Executive has not returned to full time employment prior to the end of such 30-day period.

## **12. TERMINATION OF EMPLOYMENT BY EXECUTIVE FOR GOOD REASON:**

Executive shall have the right to terminate the term of this Agreement and his employment with Northrop Grumman for "Good Reason" as that term is defined below. If Executive terminates his employment for "Good Reason" during the term of this Agreement, Executive shall receive, within 30 days after he signs a release (substantially in the form of Exhibit D hereto) which is not revoked, the Accrued Obligations (with the exception of certain benefits under Accrued Obligations which shall be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Section 14 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean without the Executive's express written consent, the occurrence of any one or more of the following:

A. any reduction or diminution in the Executive's then titles or positions (including as a Director or as a member of the Corporate Policy Council or successor senior management council), a material reduction in the nature or status of the Executive's then authorities, duties, and/or responsibilities (when such authorities, duties, and/or responsibilities are viewed in the aggregate), other than an insubstantial and inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Executive; provided that Good Reason will be deemed to exist if the Executive's reporting relationship is changed such that the Executive (x) does not report solely to the CEO or (y) the Company becomes a direct or indirect subsidiary of another corporation without his becoming Corporate Vice President and Chief Financial Officer and a Director of the ultimate parent company;

B. a reduction by the Company of the Executive's base salary as in effect on the Effective Date, or as the same shall be increased from time to time;

C. any material failure by the Company to comply with any of the provisions of this Agreement, other than isolated and inadvertent failure(s) not occurring in bad faith and remedied by the Company promptly after receipt of notice thereof given by the Executive; or

D. the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 19 herein.

E. notice by the Company (pursuant to Section 3 of this Agreement) of the non-extension of this Agreement.

F. Executive's ceasing to accrue benefits under the special pension benefit plan referenced in Section 5.D because of the dissolution of the Corporate Policy Council (or successor senior management council).

Should Executive desire to terminate his employment for "Good Reason," he shall first give at least 30 days prior written notice of his intent to so terminate to the CEO of the Company and give the Company an opportunity to promptly cure the event giving rise to "Good Reason" during such notice period. In addition, such written notice must describe the event(s) constituting "Good Reason" and must be given to the CEO within six months of the event(s).

**13. TERMINATION OF EMPLOYMENT WITHOUT GOOD REASON:** The Executive shall have the right to terminate the term of this Agreement and his employment with Northrop Grumman at any time without Good Reason by giving written notice to the CEO at least thirty days in advance of such termination. In the event that Executive's employment with the Company is terminated during the term of this Agreement by Executive without Good Reason, Executive shall not be entitled to any additional payments or benefits hereunder, other than the Accrued Obligations.

**14. SPECIAL SEVERANCE BENEFITS:** In the event Executive's employment terminates due to his death or Disability, or if he is terminated by Northrop Grumman without "Cause," or if he terminates employment for "Good Reason," then he shall be entitled to receive the following Special Severance Benefits, provided, however, that he first signs a release of claims (in a form substantially similar to Exhibit D) which is not revoked:

A. **Salary and Bonus:** A payment equal to two times the sum of (i) the Executive's annual base salary in effect at the time of termination of the Executive's employment and (ii) the greater of: (x) Executive's annual target bonus percentage established under the ICP for the fiscal year in which the date of termination occurs multiplied by his base salary at the time of termination, or (y) the average of the Executive's ICP bonus earned for the three full fiscal years prior to the date of termination (or such lesser period Executive earned ICP bonuses). No supplemental bonuses or other bonuses will be combined with the Executive's annual bonus for purposes of this computation. In addition, the Company shall pay Executive a Pro Rata Bonus. The "Pro Rata Bonus" shall equal the product of (x) Executive's actual bonus under the ICP (based on actual Company performance but using an IPF of 1.0) for the calendar year in which Executive's termination occurs, and (y) a fraction, the numerator of which is the number of days during the calendar year in which the termination occurs up to and including the date on which Executive's employment by the Company terminates, and the denominator of which is 365. The Pro Rata bonus shall be paid in the year following the year in which Executive's employment terminates, at the same time that ICP bonuses are paid to elected officers during that year. "IPF" shall have the meaning set forth in the Annual Incentive Plan.

B. **Extension of Medical and Dental Benefits:** The Company will continue to pay its portion of the Executive's medical and dental benefits for two years following the Executive's termination date. Such continuation coverage shall run concurrently with COBRA continuation coverage (or similar state law). The Executive must continue to pay his portion of the cost of this coverage with after-tax dollars. If rates for active employees increase during this continuation period, the contribution amount will increase proportionately. Also, if medical and dental benefits are modified, terminated or changed in any way for active elected officers during this continuation period the Executive will also be subject to such modification, termination or change. Following the two-year continuation period, the Executive will be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period at normal COBRA rates. Executive shall be eligible for the lifetime retiree medical benefit set forth in the first sentence of Section 8 of this Agreement as if his termination of employment constituted a retirement qualifying him for full benefits under the SORMP.

C. **Stock Grant Protection:** With respect to stock grants made to Executive in Section 6 of this Agreement only (and not other stock grants except as otherwise noted in Section 14.C.i), the better of the following and the provisions that would have applied in the absence of this Section 14.C:

- i. Two years from date of Executive's termination to exercise any vested options (including all options granted to Executive) (subject to the maximum 10 year term of the awards, and subject to the Company's authority, to the extent set forth in the elected officer grant certificate(s) governing the options, to terminate the vested options in exchange for cash in the event of a change in control).
- ii. Acceleration of all unvested RSRs granted in Section 6 of this Agreement.

- iii. Pro-rata vesting of any unvested RPSRs granted in Section 6 of this Agreement. This pro-rata calculation will be based on the number of full months of Executive's employment during the Performance Period divided by 36.

**D. Other Benefits:** In addition to the benefits noted above, the following additional benefits shall be paid Executive: (i) a lump sum payment equal to two times the value of his annual car allowance; (ii) continuation of his then current financial planning benefits for financial planning fees incurred before his termination date; (iii) the income tax preparation reimbursement benefit for preparation of tax returns for the year in which he terminates employment; (iv) reimbursement for outplacement services provided by the Company's outplacement service provider for services provided within one year after Executive's date of termination, provided, however that the total reimbursement shall be limited to an amount equal to 15% of Executive's annual base salary as of his termination date; and (v) any benefits to which Executive is entitled pursuant to Sections 8 or 9 of this Agreement.

The foregoing severance benefits shall be offset by any severance benefits Executive is entitled to receive under any other Company plan, program, practice or agreement, including the Special Agreement, but specifically excluding any Company defined benefit or 401(k) pension plans, including without limitation the plan attached hereto as Exhibit A.

**15. NO MITIGATION; NO OFFSET EXCEPT FOR CIC BENEFITS:** Except as set forth in this Agreement and under the terms of the employee benefit plans in which Executive may participate, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation, set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others; provided, however, that any severance benefits Executive may receive as a result of a change in control of the Company under the Special Agreement (or successor thereto) shall offset any similar types of severance benefits Executive is eligible to receive under this Agreement. In no event shall the Executive be obliged to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, nor shall the amount of any payment thereunder be reduced by any compensation earned by the Executive as a result of employment by another employer.

**16. TRADE SECRETS:** In the course of performing his duties for the Company, Executive will receive confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." Executive agrees that he will not, either during his employment or subsequent to the termination of his employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Northrop Grumman Trade Secrets to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company; provided, however, that the foregoing shall not preclude Executive from complying with due legal process or governmental inquiry or from taking actions or making disclosures while employed by the Company in good faith performance of his duties and obligations hereunder. Executive further agrees that if, at the time of the termination of his employment with the Company, he is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, he will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this paragraph shall be in addition to any protection afforded to Trade Secrets by law or equity.

**17. INVENTIONS:** Executive agrees that all inventions, discoveries and improvements, and all new ideas for manufacturing and marketing products or services of the Company, which Executive may conceive while employed by the Company, whether during or outside business hours, on the premises of the Company or elsewhere, alone or in collaboration with others, or which he has acquired or may acquire from others, whether or not the same can be patented or registered under patent, copyright, or trademark laws, shall be and become the sole and exclusive property of the Company. Executive agrees to promptly disclose and fully acquaint his management with any such inventions, discoveries,

improvements and ideas which he has conceived, made or acquired, and shall, at the request of the Company, make a written disclosure of the same and execute such applications, assignments, and other written instruments as may reasonably be required to grant to the Company sole and exclusive right, title and interest thereto and therein and to enable the Company to obtain and maintain patent, copyright and trademark protection therefore.

**18. NON-SOLICITATION AND NON-DISPARAGEMENT:**

A. For a period of one year following the termination of Executive's employment with the Company, Executive shall not, directly or indirectly, through aid, assistance or counsel, on his own behalf or on behalf of another person or entity (i) solicit or offer to hire any person who was, within a period of six months prior to Executive's termination, employed by the Company, or (ii) by any means issue or communicate any public statement that may be critical or disparaging of the Company, its products, services, officers, directors or employees; provided the foregoing shall not apply to truthful statements made in compliance with legal process or governmental inquiry.

B. For a period of one year following the termination of Executive's employment with the Company, the Company shall not by any means issue or communicate any public statement that may be critical or disparaging of the Executive, provided the foregoing shall not apply to truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements.

**19. ASSIGNMENT:** This Agreement is personal to Executive and shall not be assigned by him. However, this Agreement shall be binding upon any entity succeeding to all or substantially all of the assets or business of the Company, whether by merger, consolidation, acquisition or otherwise and may not otherwise be assigned by the Company.

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

**21. SAVINGS CLAUSE:** If any provision under this Agreement or its application is adjudicated to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application.

**22. ENTIRE AGREEMENT:** This Agreement represents the complete agreement and understanding between Executive and the Company pertaining to the subject matters contained herein, and supersedes all prior agreements or understandings, written or oral, between the Parties with respect to such subject matters. The Special Agreement is outside of the scope of the preceding sentence.

**23. INDEMNIFICATION:** The Company hereby covenants and agrees to indemnify Executive and hold him harmless to the fullest extent permitted by law and under the By-laws of the Company against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including attorney's fees), losses, and damages resulting from the Executive's good faith performance of his duties and obligations with the Company (including, without limitation, in his capacity as a Director). The Company, within 30 days of presentation of invoices, shall, to the extent permitted by law, advance to Executive reimbursement of all legal fees and disbursements incurred by Executive in connection with any potentially indemnifiable matter; provided, however, that in order to receive such advanced fees and disbursements, Executive must first sign an undertaking reasonably satisfactory to the Company that he will promptly repay the Company all advanced fees and disbursements in the event it is finally determined that Executive cannot be indemnified for the matter at issue under applicable law or Company By-laws; and provided further, that Executive shall consult with the Company prior to selecting his counsel and shall make a reasonable effort to select counsel reasonably acceptable to the Company.



**24. LIABILITY INSURANCE:** The Company shall cover Executive under directors and officers liability insurance both during and, while potential liability exists (but no less than six years), after the term of this Agreement in the same amount and to the same extent, if any, as the Company covers its other officers and directors.

**25. ARBITRATION:** Any dispute or controversy arising under or in connection with this Agreement or arising out of or in connection with Executive's employment shall be settled exclusively by arbitration, conducted before a single arbitrator (who is a retired federal or state court judge) in the State of California (in the major city nearest Executive's residence) in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect. The decision of the arbitrator will be final and binding upon the parties hereto. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The arbitrator may, but need not, award the prevailing party in any dispute (as determined by the arbitrator) its or his legal fees and expenses.

**26. SURVIVAL OF CERTAIN PROVISIONS:** The following provisions of this Agreement shall survive and continue to be in effect to the extent applicable following Executive's termination of employment and any purported termination of the term of this Agreement: Section 5.D (special pension benefit); Section 5.F (early retirement) (but without regard to changes to the terms and conditions of plans or programs subsequent to the date of Executive's termination); Section 6 (special stock grants); Section 8 (retiree medical benefit); Section 9 (Special Agreement); Section 10 (termination of employment by the Company); Section 11 (termination of employment by reason of death or disability of Executive); Section 12 (termination of employment by Executive for Good Reason); Section 13 (termination of employment without Good Reason); Section 14 (special severance benefits); Section 15 (no mitigation; no offset); Section 16 (trade secrets); Section 17 (inventions); Section 18 (non-solicitation and non-disparagement); Section 20 (tax withholding); Section 23 (indemnification); Section 24 (liability insurance); Section 25 (arbitration); this Section 26 (survival of certain provisions); Section 27 (cooperation with the Company); and Section 28 (governing law).

**27. COOPERATION WITH THE COMPANY:** During and after the expiration of this Agreement, the Executive shall reasonably cooperate with the Company in regard to any matter, dispute or controversy in which the Company is involved, or may become involved, and of which the Executive may have knowledge as a result of his employment by the Company. Such cooperation at a time when the Executive is no longer employed by the Company or a member of the Board shall be subject to further agreement providing for legally appropriate compensation.

**28. GOVERNING LAW:** This Agreement shall be construed in accordance with and governed by the laws of the State of California without regard to principles of conflict of law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of October 16, 2003:

**EXECUTIVE**

/s/ Charles H. Noski

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By: **Charles H. Noski**

**NORTHROP GRUMMAN CORPORATION**

By: /s/ J. Michael Hateley

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Print Name: **J. Michael Hateley**  
Its: Corporate Vice President and Chief Human Resources and Administrative Officer

**EXHIBIT A TO EMPLOYMENT AGREEMENT**  
**SPECIAL PENSION BENEFIT**

Charles H. Noski Executive Retirement Plan

- 1.01 Purpose. The purpose of this Plan is to give enhanced retirement benefits to Charles H. Noski (the "Participant"). This Plan is intended to supplement benefits that are otherwise available under the Northrop Grumman Pension Plan (the "NGPP").
- 1.02 Definitions and Construction.
- (a) Capitalized terms used in this Plan which are not defined in this Plan are taken from Appendix F of the Northrop Grumman Supplemental Plan 2 (the "CPC SERP") and, to the extent they are incorporated into the CPC SERP, Article 1 of the Northrop Grumman Supplemental Plan 2 ("ERISA 2") and the NGPP, the applicable terms of which are attached as Exhibits hereto in accordance with Section 1.09.
  - (b) The benefits under this Plan are designed to supplement benefits under the NGPP, and are therefore to be construed utilizing the same principles and benefit calculation methodologies applicable under the NGPP except where expressly modified below.
- 1.03 Eligibility and Vesting. Eligibility for benefits under this Plan will be limited to Charles H. Noski. Except as otherwise provided in Section 1.04(d), the Participant will not be entitled to receive any benefits under this Plan unless he becomes vested under Section 2.62 of the NGPP (see Exhibit A).
- 1.04 Benefit Amount.
- (a) The Participant's annual benefit, subject to the limit described in Section 1.05 below, under this Plan equals 1/12 of 5% multiplied by the Participant's Final Average Salary (as defined in (e) below) multiplied by the Participant's completed Months of Benefit Service (determined in the same manner as Months of Benefit Service are determined for accrual purposes under the CPC SERP (see Exhibit A); provided, however, that Months of Benefit Service also shall be determined by reference to periods of membership on a successor management council to the CPC, if any), but in no event (except as otherwise provided in the following sentence) shall the Participant's accrued benefit exceed 60% of his Final Average Salary. In the event the CPC SERP is amended in the future to provide, for all participants, a multiplier that exceeds 60% of Final Average Salary, this Plan will be amended accordingly to provide a corresponding benefit increase under this Section.
  - (b) The normal form of benefits payable is a single, straight life annuity benefit for the Participant commencing on the first day of the month coinciding with or next following the attainment of age 65 (the "Normal Retirement Date"), assuming an annual benefit equal to the benefit formula amount in (a). The form of benefit will be determined under Section 1.06.
  - (c) Benefits, Eligible Pay and Final Average Salary (as defined in (e) below) will be calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.
  - (d) Subject to (d)(1) through (d)(3) below, benefits under this Plan shall commence as of the later of the Participant's termination of employment with Northrop Grumman Corporation (the "Company") and all of its affiliates (collectively referred to along with the Company as the "Affiliated Companies") or the Participant's Normal Retirement Date. In the event

benefits under this Plan are to be distributed to the Participant, or his surviving spouse, prior to the Participant's Normal Retirement Date, the amount of such benefits shall be determined as follows:

- (1) If, upon or prior to the expiration of the employment agreement entered into between the Participant and the Company on October 16, 2003 (the "Agreement"), the Participant experiences a termination of employment with all Affiliated Companies due to death, "Disability" (as defined in Section 11.B. of the Agreement), termination by the Participant for "Good Reason" (as defined in Section 12 of the Agreement), or termination by the Company without "Cause" (as defined in Section 10 of the Agreement), the Participant, or his surviving spouse in the event of the Participant's death, will be entitled to an immediate distribution of the benefit calculated under Section 1.04(a) above, subject to the limitation described in Section 1.05 below, but unreduced for early commencement. If the Participant's employment with all Affiliated Companies is terminated by the Participant for "Good Reason" during the period following the expiration of the Agreement in which the Participant may continue to exercise his right to terminate his employment for "Good Reason" pursuant to the Agreement, the Participant will be entitled to an immediate distribution of the benefit calculated under Section 1.04(a) above, subject to the limitation described in Section 1.05 below, but unreduced for early commencement.
- (2) If, at any time prior to the date on which the Participant completes 72 Months of Benefit Service, his employment with all Affiliated Companies is terminated for any reason other than those enumerated in paragraph (d)(1) above, no benefit will be payable under the Plan to the Participant or his surviving spouse until the Participant attains, or would have attained, age 65 or such earlier time that commencement of benefit payments would be permitted under the NGPP.
- (3) If the Participant's employment terminates for any reason whatsoever under this Plan on or after the date on which he completes 72 Months of Benefit Service, the benefit, reduced (if applicable) in accordance with the following chart, will be immediately distributed to the Participant following the determination of the offset in Section 1.05 below.

Completed Months of Benefit Service	Reduction
72 but less than 84	15%
84 but less than 96	10%
96 but less than 108	5%
108 or more	0%

If the Participant qualifies for an early benefit under both this (d)(3) and under (d)(1) above, he shall be entitled to the unreduced benefit under (d)(1).

- (e) Final Average Salary for any Plan Year (currently defined under the NGPP as the calendar year) is the Participant's average Eligible Pay (as defined in (f) below) for the highest three of the last ten consecutive Plan Years in which the Participant was a covered employee. For this purpose, years will be deemed to be consecutive even though a break in service year intervenes.

- (f) Eligible Pay for any Plan Year will be determined by reference to Sections 2.28 and 7.03 and Exhibit B of the NGPP, current versions of which are all attached hereto as Exhibit B, and to Section 1.04(c) above. In addition, Eligible Pay shall include compensation deferred under the Northrop Grumman Deferred Compensation Plan and all other nonqualified plans to which the Participant makes deferrals; provided, however, that any compensation deferred shall only be treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

1.05 Benefit Limit. Accruals under Section 1.04 will be limited as provided in this Section.

- (a) Accruals under this Plan may not exceed the amount calculated under Section 1.04, offset for benefits identified in (a)(1) and (a)(2) below.
- (1) The amounts calculated under 1.04 above will be reduced by the retirement benefits the Participant is entitled to under all defined benefit retirement plans, programs, and arrangements maintained by the Company, whether qualified or nonqualified (but not contributory or defined contribution plans, programs or arrangements), including, but not limited to, the following:
- (i) the NGPP and any other defined benefit plan qualified under section 401(a) of the Code which is maintained by the Affiliated Companies, was maintained by any other employer while it was an Affiliated Company, or was maintained by an Affiliated Company prior to being acquired by the Company; provided, however, that the foregoing shall not apply to any plan or program heretofore maintained by any former employer of Participant other than as set forth in Section 1.05(a)(2) below;
  - (ii) any pension benefit enhancements under change-in-control special agreements (including enhancements for age and service) that the Participant has entered into with the Company; and
  - (iii) any other Company plan, program, arrangement or individual contract which provides a nonqualified, defined benefit pension.
- (2) The amounts calculated under 1.04 above will be further reduced by all benefits the Participant is entitled to under all qualified and nonqualified defined benefit plans, programs, and arrangements maintained by Hughes Electronics Corporation, its predecessors, or any affiliates of either, multiplied by a fraction (the value of which shall not exceed one) the numerator of which is the Participant's Months of Benefit Service (as determined for CPC SERP accrual purposes) and the denominator of which is 60.
- (b) For purposes of calculating the Participant's net benefit and applying the offset described in subsection (a):
- (1) This paragraph (1) applies to the extent the Participant commences benefits under plans and programs included in (a)(1) and (a)(2) above simultaneously with the commencement of benefits under this Plan. In such case, the net benefit will be determined by subtracting the amount in (ii) from the amount described in (i), as follows, where (i) and (ii) are:

- (i) The Participant's gross accrued benefit under this Plan calculated in accordance with Section 1.04 (including any early retirement subsidies, supplements, and other such benefits), expressed in the form of a single life annuity commencing at the time benefits are to be paid under this Plan.
  - (ii) The Participant's benefits under the plans and programs included in (a)(1) and (a)(2) above, taking into account any early retirement factors, subsidies, supplements, and any other such benefits, converted to a single life annuity commencing at the time benefits are to be paid under this Plan. The conversion to a single life annuity shall be made using the actuarial assumptions under the NGPP which are included in Exhibit C of this Plan (or the actuarial assumptions specified under the CPC SERP (attached hereto in Exhibit C) if the payment form elected under the other plan does not correspond with a payment form offered under the NGPP).
- (2) This paragraph (2) applies to the extent the Participant commences benefits under plans and programs included in (a)(1) and (a)(2) above after the commencement of benefits under this Plan. In such case, the net benefit will be determined by subtracting, at the time benefits commence under such other plans, the amount in (ii) from the amount described in (i), as follows, where (i) and (ii) are:
  - (i) The Participant's gross accrued benefit under this Plan calculated in accordance with Section 1.04 (including any early retirement subsidies, supplements, and other such benefits), expressed in the form of a single life annuity commencing at the time benefits are to be paid under this Plan.
  - (ii) The Participant's benefits under the plans and programs included in (a)(1) and (a)(2) above, taking into account any early retirement factors, subsidies, supplements, and any other such benefits, converted to a single life annuity commencing at the time benefits are to be paid under such other plans. The conversion to a single life annuity shall be made using the actuarial assumptions under the NGPP which are included in Exhibit C of this Plan (or the actuarial assumptions specified under the CPC SERP (attached hereto in Exhibit C) if the payment form elected under the other plan does not correspond with a payment form offered under the NGPP).
- (3) This paragraph (3) applies to the extent a benefit under any plan or program included in (a)(1) and (a)(2) commences prior to the receipt by the Participant of benefits under this Plan. In such case, the net benefit will be determined by subtracting, at the time benefits commence under this Plan, the amount in (ii) from the amount described in (i), as follows, where (i) and (ii) are:
  - (i) The Participant's gross accrued benefit under this Plan calculated in accordance with Section 1.04 (including any early retirement subsidies, supplements, and other such benefits), expressed in the form of a single life annuity commencing at the time benefits are to be paid under this Plan.
  - (ii) The Participant's benefits under the plans and programs included in (a)(1) and (a)(2) above, taking into account any early retirement factors, subsidies, supplements, and any other such benefits, converted to a single life annuity commencing at the time benefits were paid under such

other plans. The conversion to a single life annuity shall be made using the actuarial assumptions under the NGPP which are included in Exhibit C of this Plan (or the actuarial assumptions specified under the CPC SERP (attached hereto in Exhibit C) if the payment form elected under the other plan does not correspond with a payment form offered under the NGPP). An adjustment for payments already received due to differing commencement dates of the Participant's various benefits shall be made using the actuarial assumptions under the CPC SERP.

- (4) Notwithstanding paragraphs (1), (2), and (3) above, this paragraph (4) applies to the extent the Participant elects to receive his Plan benefit under the lump-sum option described in Article 3 of ERISA 2. In such case, the net benefit will be determined by subtracting, at the time benefits commence under this Plan, the amount in (ii) from the amount described in (i), as follows, where (i) and (ii) are:
- (i) The Participant's gross accrued benefit under this Plan calculated in accordance with Section 1.04 (including any early retirement subsidies, supplements, and other such benefits), expressed in the form of a single life annuity commencing at the time benefits are to be paid under this Plan.
  - (ii) The Participant's benefits under the plans and programs included in (a)(1) and (a)(2) above, taking into account any early retirement factors, subsidies, supplements, and any other such benefits, converted to a single life annuity.
    - (A) To the extent the benefits under such other plans commence simultaneously with or prior to the benefits under this Plan, this conversion shall be made in accordance with the rules found in paragraphs (1) or (3) above as appropriate.
    - (B) To the extent benefits under such other plans have not commenced by the date the Participant commences benefits under this Plan, the conversion shall be made assuming that the benefits under such other plans will be paid at the earliest possible commencement date (but not prior to commencement of benefits under this Plan) and under the normal form of payment provided under such plans. The conversion to a single life annuity shall be made using the actuarial assumptions under the NGPP which are included in Exhibit C of this Plan (or the actuarial assumptions specified under the CPC SERP (attached hereto in Exhibit C) if the payment form elected under the other plan does not correspond with a payment form offered under the NGPP).
- (c) The Participant's resulting net benefit under this Plan, determined in accordance with (b), will then be converted, in the manner elected by the Participant, to the appropriate payment form in accordance with the provisions of Section 1.06.
- (d) Example: The Participant elects to receive an early retirement benefit with 81 Months of Benefit Service and Final Average Salary equal to \$1,500,000. The Participant has accrued a monthly benefit under the Northrop Grumman Pension Plan (the "NGPP") equal to a monthly single life annuity of \$1,000 commencing at age 65 and a Hughes Electronics Corporation executive pension plan (the "Hughes EPP") benefit equal to a single life annuity of \$5,000 commencing at age 60.

The Participant's pre-offset benefit under this Plan, calculated in accordance with Section 1.04, will equal 33.7% of the Participant's Final Average Salary (\$1,500,000) x 85% to account for the early retirement reduction under Section 1.04(d). This will result in a monthly gross benefit under this Plan, prior to the application of the Benefit Limit, equal to \$35,806.25. The Participant's total net benefit will be calculated, taking into account the offset under (a) above, by reducing the gross benefit by the following amounts at the following times:

- (1) the participant will receive an unreduced monthly benefit equal to \$35,806.25 from age 58 through reaching age 60;
- (2) the benefit will be reduced by the \$5,000 monthly benefit under the Hughes EPP upon reaching age 60 leaving a total monthly benefit of \$30,806.25; and
- (3) the benefit under this Plan will once again be reduced upon commencement of the \$1,000 normal monthly retirement benefit under the NGPP that will be payable upon reaching age 65 leaving a monthly benefit of \$29,806.25.

1.06 Payment of Benefits.

- (a) Benefits will be paid in accordance with Section 2.02 of ERISA 2 (See Exhibit E), including the lump-sum option governed by Article 3 of ERISA 2 and the applicable forms of benefit described in Sections 10.06 through 10.11 of the NGPP (see Exhibit E). The lump-sum option under Article 3 of ERISA 2 shall be calculated using the actuarial assumptions contained therein. The benefit forms available under the NGPP shall be calculated utilizing the actuarial assumptions and conversion methodologies utilized therein.
- (b) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Participant. If the Participant dies prior to commencement of benefits, payment will be made under Section 1.07.

1.07 Preretirement Death Benefits. If a Participant dies before commencement of benefits, preretirement surviving spouse benefits will be payable under this Plan on behalf of the Participant regardless of whether his spouse would be eligible for a qualified preretirement survivor annuity from the NGPP.

- (a) The death benefit will be the survivor benefit portion of a 100% joint-and-survivor annuity based on the benefit in Section 1.04, as adjusted for early commencement under Section 1.04(d)(1) or (3) and as limited by Section 1.05.
- (b) Benefits will commence effective the first of the month following the death of the Participant or, if later, effective as of the earliest date a benefit would otherwise have commenced with respect to the Participant under the Plan. If, however, the Participant dies upon or prior to the expiration of the Agreement, the surviving spouse will immediately begin receiving the distribution of an unreduced benefit under the Plan effective as of the first of the month following the Participant's death.
- (c) Notwithstanding any provision of (b) above to the contrary, the Company may delay payment in the event there is a dispute as to whom payment is due until the dispute is settled.
- (d) The benefit in (a) will be determined without regard to the limits in sections 401(a)(17) and 415 of the Code.
- (e) No benefit will be payable under this Plan with respect to a spouse after the death of that spouse.



- 1.08 Claims Procedures. No benefits will be paid under the Plan unless a proper claim is submitted to the Company for them. The procedures for claims, denials, and the review of a denial or partial denial of a claim for benefits under this Plan are described in the regulations promulgated by the Department of Labor under section 503 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Sections 15.15 through 15.17 of the NGPP (which are set forth as Exhibit F to this Plan) except that, following the exhaustion by the Participant of all mandatory appeals, he may, prior to filing suit under ERISA, voluntarily seek to have his denial reviewed in accordance with the arbitration provision included as Section 25 of the Agreement. Any such review under Section 25 of the Agreement shall be on a de novo basis.
- 1.09 Exhibits. Except as otherwise provided herein, all references in this Plan to exhibits shall be interpreted as references to the Exhibits attached to this document. Without exception, the Exhibits attached hereto are included solely for purposes of providing the Participant with a copy of any definitions and other provisions referenced in this Plan as they currently appear in the NGPP, ERISA 2, and CPC SERP. The provisions found in the Exhibits are subject to change in accordance with amendments that are adopted by the Company with respect to the underlying plans and programs in which such provisions are found; provided, however, that the application of any such amendment to this Plan is subject to Section 1.10. In addition, all references in the Exhibits to other sections, articles, exhibits, or appendices are, except as otherwise noted, references to portions of the underlying plans and programs from which the excerpts were taken and are not intended as references to sections or provisions of this Plan.
- 1.10 Amendment, Administration, Funding, and Other Related Matters. Except as otherwise provided in this Plan, the provisions of ERISA 2, as may be amended from time to time, shall apply with respect to the operation of this Plan. The Plan shall be amended in accordance with and in conjunction with amendments that are adopted with respect to the CPC SERP, provided, however, that no such amendment shall apply to this Plan to the extent that it would materially diminish the calculation of the Participant’s accrued benefit or other significant rights under this Plan. For example, the Company may amend the Plan to reduce or eliminate benefit payment options available under the Plan so long as the Participant, at a minimum, continues to have the ability to elect to receive his Plan benefit from among at least the following options: lump-sum payment; single life annuity; or at least one joint and survivor annuity at 100%. In addition, the Company has the right to amend the Plan, as may be deemed advisable, in accordance with changes in the law or to the extent otherwise legally-required, including, but not limited to, conforming the Plan to all applicable statutes, regulations, and administrative authority. If a Plan amendment materially diminishes the calculation of the Participant’s accrued benefit or other significant rights under this Plan, the Company shall provide benefits or rights with equivalent after-tax economic value to Executive in an alternative manner, including, for example, outside the Plan.

Vesting and Determining Service

**Section 2.62 of the NGPP currently provides:**

2.62 Vested. A Participant who has acquired and retains a nonforfeitable right to benefits under the Plan.

- (a) Except as otherwise provided in the Plan, an Employee is 100 percent Vested in his or her Accrued Benefit under the Plan upon being credited with five Years of Vesting Service. Until then, Employees are vested in no portion of any benefits earned under this Plan.
- (b) This term does not include anyone who has received a distribution of his or her full Accrued Benefit unless he or she is rehired.

**Appendix G2 of the NGPP currently provides:**

G2.01 In General. This Article provides the rules for determining the amount of an Employee's Vesting Service.

G2.02 Year of Vesting Service. A year of Vesting Service is each calendar year in which the Employee is credited with 1,000 or more Vesting Hours.

G2.03 Vesting Hours. Vesting Hours are generally determined for all Employees in the same manner as Benefit Hours for active Participants in accordance with G1.03 (see below), subject to the following modifications.

- (a) No more than 501 Benefit Hours are required to be credited under G1.03(b) to a Covered Employee on account of any single continuous period during which he or she performs no duties (whether or not that period occurs in a single computation period).
- (b) Benefit Hours for back pay awarded or agreed to for periods described in G1.03(b) are subject to the limitations in G1.03(b). For example, no more than 501 Benefit Hours are required to be credited for payments of back pay to the extent the back pay is agreed to or awarded for a period during which an Employee did not or would not have performed duties.

G2.04 Service With Various Employers.

- (a) All employment with the Affiliated Companies is taken into account in determining an Employee's Vesting Hours and years of Vesting Service.
- (b) See Articles G3 and G4 for rules governing pre-acquisition service with employers that have become Affiliated Companies through merger or acquisition.
- (c) An Employee will not receive Vesting Service after he or she leaves the Affiliated Companies as part of a sale or disposition. However, upon rehire by the Affiliated Companies, all service standing to the Employee's credit under the last Northrop Grumman pension plan in which he or she most recently participated will be credited under the plan in which he or she first participates after rehire.

G2.05 Leased Employee Service.

- (a) In General. Although Leased Employees may not participate in the Plan, service as a Leased Employee counts as Vesting Service, but not as Benefit Service or Credited Service. An Employee's service as an Employee and as a Leased Employee is added together to determine his or her total Vesting Service. But service as a Leased Employee is relevant in determining eligibility for an Employee's benefit under the Plan only if the Leased Employee service is followed by a period of common law employment.
- (b) Early Retirement Eligibility Service
  - (1) Early Retirement Eligibility. Because Leased Employee service counts as Vesting Service, it also counts toward eligibility for early retirement benefits.
  - (2) Amount of Early Retirement Benefits. Leased Employee Service does not count toward the amount of an early retirement subsidy with respect to the Accrued Benefit components attributable to the Predecessor Plan Accrued Benefit or the Historical Transition Benefit.

G2.06 Vesting Service Limited. No more than one year of Vesting Service may be credited to an Employee for any Plan Year.

G2.07 Transfers and Initial Service Credit. See Sections G3.02(a), G3.03(a), and G3.04(a).

G2.08 Pre-Acquisition Vesting Service. See Articles G3 and G4.

G2.09 Loss of Vesting Service. An Employee may lose Vesting Hours and years of Vesting Service under the Break in Service rules in Article G5. Vesting Service may be restored upon an Employee's rehire under the rules in Article G6.

G2.10 Rehires. See Article G6 for rules on the rehire of Participants.

**Section F.04 of the CPC SERP currently provides:**

- (a) Only Months of Benefit Service after the commencement of a Participant's tenure on the Corporate Policy Council will be counted, as set forth in Exhibit A [to the CPC SERP which identifies plan participants by name].
- (b) Months of Benefit Service will continue to be counted for a Participant until the earlier of (1) and (2):
  - (1) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies which is qualified under section 401(a) of the Code ("Successor Qualified Plan").
  - (2) Cessation of the officer's membership on the Corporate Policy Council (whether because of termination of his membership or dissolution of the Council).
  - (3) Examples: The following examples assume that the Participant continues to earn Months of Benefit Service under the Qualified Plans or a Successor Qualified Plan until termination of employment with the Affiliated Companies.  
Example 1: Officer A terminates employment with the Affiliated Companies on March 31, 1999. At that time, he is still a member of the CPC. His service under this Program ceases to accrue on March 31.

Example 2: The CPC is never dissolved, and Officer B continues to be a member of the CPC until December 31, 2005, though continuing to work for the Affiliated Companies after that date. His service under this Program ceases to accrue on December 31, 2005.

(c) Months of Benefit Service will be determined under the rules of the Qualified Plans for determining service after June 30, 2003 or the date after which the Participant is covered by a cash balance plan, if later. For periods of service prior to becoming a participant in a Cash Balance Plan, Benefit Service will be computed using the Special Elapsed Time Method.

**Appendix G1 of the NGPP currently provides:**

G1.02 Months of Benefit Service. A Participant is credited with one month of Benefit Service for each calendar month in which he or she earns one Benefit Hour.

G1.03 Benefit Hours. A Benefit Hour is determined as follows.

- (a) A Benefit Hour is each hour for which an Employee is paid, or entitled to payment, for the performance of duties as a Covered Employee for the Participating Companies during the applicable computation period.
- (b) A Benefit Hour is each hour for which an Employee is paid, or entitled to payment by the Participating Companies as a Covered Employee on account of a period during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, Incapacity, lay-off, jury duty, military duty or leave of absence. Notwithstanding the preceding sentence:
  - (1) An hour for which a Covered Employee is directly or indirectly paid, or entitled to payment, on account of a period during which no duties are performed is not required to be credited to him or her if such payment is made or due under a plan maintained solely for the purpose of complying with applicable workmen's compensation, or unemployment compensation or disability insurance laws; and
  - (2) Benefit Hours are not required to be credited for a payment that reimburses an Employee solely for medical or medically related expenses incurred by the Employee.
- (c) For purposes of (b), a payment is deemed to be made by or due from the Participating Companies regardless of whether the payment is made by or due from the Participating Companies directly, or indirectly through, among others, a trust, fund, or insurer to which the Participating Companies contribute or pay premiums and regardless of whether contributions made or due to the trust, fund, insurer or other entity are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate.
- (d) A Benefit Hour is each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Participating Companies with respect to a period during which the individual was a Covered Employee. The same Benefit Hours shall not be credited both under (a) or (b), as the case may be, and under this subsection (d). Thus, for example, a Covered Employee who receives a back pay award following a determination that he or she was paid at an unlawful rate for Benefit Hours previously credited will not be entitled to additional credit for the same Benefit Hours.
- (e) A Benefit Hour includes any other hour that must be credited for benefit purposes under Department of Labor Regulations at 29 C.F.R. § 2530.200b-2, or any successor provision. Those regulations are incorporated by reference.

(f) Certain Leaves of Absence.

- (1) For Disability Leave commencing after June 30, 2003, a Participant is credited with one month of Benefit Service for each calendar month or partial month of leave, up to a maximum of 24 months of Benefit Service.
- (2) For Disability Leave commencing before July 1, 2003, Benefit Service is determined under the plan that applied to the Participant as of the date the leave commenced.
- (3) For unpaid leaves of absence for periods of Incapacity, 8 Benefit Hours are awarded for each day of the leave, but only during the first 12 months of the leave. No more than 501 Benefit Hours are required to be credited to a Covered Employee on account of any single continuous period during which he or she performs no duties (whether or not that period occurs in a single computation period).
- (4) A Participant is credited with one month of Benefit Service for each month or partial month during which the Participant is on Military Leave. This applies only if the Participant was a Covered Employee when he or she left on Military Leave and he or she returns to employment with the Affiliated Companies while his or her employment rights are still protected by federal law. This paragraph (4) is intended to provide service credit only to the extent required by Code section 414(u).

Eligible Pay.**Section 2.28 of the NGPP currently provides:**

2.28 Eligible Pay. Eligible Pay includes only certain types of compensation from a Participating Business Unit. See Article 7.

**Section 7.03 of the NGPP currently provides:**

7.03 Eligible Pay. This Section provides rules for determining how much Eligible Pay an Employee has for purposes of determining his or her benefits under this Article 7.

- (a) In General. Eligible Pay means amounts paid or made available to a Covered Employee by one of the Affiliated Companies for services performed for a Participating Business Unit.
- (1) Although Benefit Credits are earned only when Eligible Pay is actually paid, compensation's status as Eligible Pay is determined when it is earned. So if compensation is earned when an individual is Covered Employee, it is Eligible Pay regardless of when it is paid.
  - (2) Eligible Pay includes base pay and other elements of pay described in Exhibit B to the NGPP which lists the items that are included and excluded from the definition of Eligible Pay.
- (b) Eligible Pay Limit. Compensation counted under this Plan will be limited to the extent required by section 401(a)(17) of the Code. The amount, as so limited, can be taken into account at any time during the Plan Year.
- (1) This Section is only intended to implement section 401(a)(17) of the Code and is to be interpreted accordingly.
  - (2) Compensation may not exceed \$200,000, as indexed under the Code.
  - (3) If section 401(a)(17) of the Code is amended, any additional limitations on counted compensation will automatically be applied without any further amendment of this Plan.
- (c) Disability Leave.
- (1) For a Participant on Disability Leave commencing after June 30, 2003, Benefit Credits continue to apply even if the Participant is not receiving his or her regular pay. During such a period, Eligible Pay is deemed to be the Participant's daily rate of pay in effect on the last day of the month before the month in which the Disability leave began. In addition, Eligible Pay during the Disability Leave includes overtime pay and bonuses paid during the leave.
  - (2) No amount will be imputed as Eligible Pay for any month following the earliest of: (i) 24 consecutive months of Disability Leave; (ii) the Employee's return to active employment; (iii) the Employee's termination of employment (determined in accordance with the Affiliated Companies' payroll records); and (iv) the Employee's death.

- (3) For Disability Leave commencing before July 1, 2003, see the provisions of the applicable plan in effect as of the date the leave commenced. Those provisions govern continuous periods of Disability Leave until the Employee returns to active service with the Affiliated Companies. Any subsequent periods of Disability Leave are subject to this Plan's rules.
- (d) Military Leave. See Section E.03(b) [of the NGPP].
- (e) Other Leaves of Absence. For layoffs and leaves of absence not described in (c) or (d), a Participant receives Eligible Pay only to the extent that he or she receives compensation through the Company payroll. Accordingly, such a Participant will receive an allocation to his or her Benefit Credit Account only for those months during the leave in which pay is actually received.
- (f) Transfers. See Section G3.06 [of the NGPP].

**Exhibit B to the NGPP currently provides:**

“Eligible Pay” includes the following items:

- At sea pay
- Automatic rate progressions
- Base pay
- Bereavement
- Commissions
- Completion of work awards
- Cost of living adjustments for domestic hourly employees
- Disability leave pay
- Domestic and international hardship adjustments
- Domestic field bonus
- Domestic Nonstandard work week pay
- Employee retention incentive (ERI) pay
- Extended work week pay
- Flight pay or flight time bonus
- Holiday pay
- Incentive bonuses, including ProPay
- Incentive Compensation Plan (ICP) bonus for elected officers
- International hardship allowance
- International hazardous duty allowance
- Jury duty leave pay
- Key employee achievement program (KEAP) pay
- Key employee retention plan (KERP) pay
- Location allowance (international allowance incentive payments)
- Lump sum payments in lieu of a salary increase to the base rate

- MAP/TAP/PAP awards
- Military leave pay
- Overseas allowance
- Overtime pay
- Personal absence pay
- Personal leave pay
- Pooled time off pay
- Premium pay, including but not limited to:
  - Domestic field premium
  - Domestic firefighter premium
  - Domestic perimeter premium
  - Offsite premium-incentive only
  - Remote work site premium-incentives only
  - Team Leader Premium
- Program development bonus
- Program management bonus
- Results sharing bonus payments
- Retention bonuses
- Special performance awards, including but not limited to:
  - Acquisition bonuses
  - Patent/Inventor awards
  - Program bonuses
  - Suggestion awards
- Transition project bonuses
- Shift differentials
- Sick leave pay
- Vacation pay
- Voting leave pay

The following items are specifically excluded from “Eligible Pay”:

- Area differential pay
- Car allowance and miscellaneous expenses
- Compensation deferred by (or paid to) the Participant under a nonqualified deferred compensation plan (including, but not necessarily limited to, the Northrop Grumman Deferred Compensation Plan)
- Education/tuition reimbursement or payments
- Executive perquisites
- Expense reimbursement or allowances
- Flex benefit dollars and opt-out dollars for medical/dental coverage



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- Foreign cost-of-living adjustments (overseas allowance, if used for COLA purposes)
  - Foreign shelter, furniture, transportation, and miscellaneous allowances
  - Gross up payments
  - Hiring and signing bonus
  - Home retention allowance
  - Imputed income
  - Instructor fees/stipends
  - Insurance allowances
  - Mileage and relocation reimbursement
  - Moving expenses (including home sale)
  - Overtime meal reimbursement
  - Parking reimbursement
  - Per diem reimbursement or allowance
  - Permanent separation allowance — payments or lump sum
  - Referral payments
  - Retention payment made pursuant to an agreement entered into by a Participating Business Unit with an Employee in exchange for the Employee's agreement to waive his/her rights to a change in control severance plan or special agreement
  - Severance pay of all kinds, including change in control severance payments
  - Rideshare incentives
  - Sick pay excess carryover limit pay
  - Sick pay off during layoff/ termination
  - Stock option compensation and other stock based compensation
  - Special assignment incentive pay
  - Spousal travel reimbursement or allowance
  - Tax return preparation reimbursement
  - Travel expenses reimbursements
  - Uniform allowance
  - Vacation excess carryover limit pay
  - Vacation pay off during layoff/ termination
  - Vacation reimbursement for unused purchased vacation
  - Value of any non-cash awards
  - Vanpool driver allowance

Any other item not specifically included in Eligible Pay will be excluded from Eligible Pay

EXHIBIT C

Actuarial Assumptions

**Section A.04 of the NGPP currently provides:**

- A.04 Actuarial Assumptions. For purposes of this Appendix A and Section D.02, the interest and mortality assumptions for distributions shall be the Applicable Interest Rate and the Applicable Mortality Table, as provided in the Uruguay Round Agreements Act, Public Law 103-465.
- (a) The Applicable Interest Rate is the average annual rate of interest under Code section 417(e)(3)(A)(ii)(II) for the fourth month immediately preceding the first day of the stability period.
  - (b) The stability period is the Plan Month that contains the Annuity Starting Date for the distribution. During the stability period, the applicable interest rate remains constant.
  - (c) The Applicable Mortality Table is the mortality table described in Code section 415(b)(2)(E)(v).

**Appendix D of the NGPP currently provides:**

- D.01 Annuity Actuarial Equivalents. The following table shall be used to determine the Actuarial Equivalent of the Normal, Postponed and Early Retirement Benefits where payment is made in some form other than a lump sum as well as for determining the amount of the death benefits under Article 11. All factors shall be interpolated based upon age computed in accordance with the 16-day rule in Section 7.05(b). The factors are as follows:

Joint and Survivor Annuity, Contingent Annuitant and

Ten-Year Certain and Continuous Factors

Nearest Age	100%	50%	10-Year C&C
55	.8700	.9300	.9810
56	.8650	.9270	.9790
57	.8600	.9240	.9770
58	.8550	.9210	.9740
59	.8500	.9180	.9710
60	.8450	.9150	.9670
61	.8400	.9120	.9630
62	.8350	.9090	.9590
63	.8300	.9060	.9540
64	.8250	.9030	.9490
65	.8200	.9000	.9420
66	.8150	.8970	.9350
67	.8100	.8940	.9270
68	.8050	.8910	.9190
69	.8000	.8880	.9100
70	.7950	.8850	.8990
71	.7900	.8820	.8880
72	.7850	.8790	.8750
73	.7800	.8760	.8610
74	.7750	.8730	.8460

Nearest Age	100%	50%	10-Year C&C
75	.7700	.8700	.8300
76	.7650	.8670	.8130
77	.7600	.8640	.7950
78	.7550	.8610	.7760
79	.7500	.8580	.7560
80	.7450	.8550	
81	.7400	.8520	
82	.7350	.8490	
83	.7300	.8460	
84	.7250	.8430	
85	.7200	.8400	
86	.7150	.8370	
87	.7100	.8340	
88	.7050	.8310	
89	.7000	.8280	
90	.6950	.8250	
91	.6900	.8220	
92	.6850	.8190	
93	.6800	.8160	
94	.6750	.8130	
95	.6700	.8100	
96	.6650	.8070	
97	.6600	.8040	
98	.6550	.8010	
99	.6500	.7980	
100	.6450	.7950	

Increase or decrease .01 for each year contingent annuitant is more than five years older or younger than the participant. The total factor may not exceed 1.0000.

Level Income Option Factors

Level income option factors to Age 62 and Age 65 should be interpolated and rounded to four decimals.

Level Income to Age 62 and Age 65 Option

Age	To Age 62	To Age 65
55	.5900	.4600
56	.6300	.4900
57	.6800	.5300
58	.7300	.5700
59	.7900	.6200
60	.8500	.6700
61	.9200	.7200
62	1.000	.7800
63	—	.8500
64	—	.9200
65	—	1.000

D.02 Lump Sum Actuarial Equivalents. In determining lump sum Actuarial Equivalents, the interest and mortality assumptions described in Section A.04 [generally, the applicable interest rate and applicable mortality table under sections 417 and 415 of the Internal Revenue Code] shall be used.

**Section F.09 of the CPC SERP currently provides:**

F.09 Actuarial Assumptions: The following defined terms and actuarial assumptions will be used to the extent necessary to convert benefits to straight life annuity form commencing at the Participant's Normal Retirement Date under Sections F.05 [concerning the limitation on benefits] and F.08 [concerning individual arrangements]:

Interest: Five percent (5%)

Mortality: The applicable mortality table under section 417(e)(3) of the Code, which would be used to calculate a lump sum value for the benefit under the Qualified Plans.

Increase in Code Section 415 Limit: 2.8% per year.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after commencement of benefits.

**Section F.05 of the CPC SERP currently provides:**

F.05 Benefit Limit. Accruals under Section F.04 will be limited as provided in this Section.

- (a) Accruals for a Participant under this Program may not exceed the lesser of (1) or (2) below, adjusted as described in (b):
  - (1) 60% of Final Average Salary; or
  - (2) the amount calculated under Section G.04 above.
- (b) The amounts calculated under (1) and (2) above will be multiplied by any applicable early retirement factor and further reduced by the early retirement benefits the participant is eligible for, including all early retirement subsidies, supplements, and other such benefits, under all plans, programs, and arrangements maintained by the Company, whether qualified (excluding all defined contribution plans) or nonqualified (excluding contributory plans), including, but not limited to, the following:
  - (1) the Qualified Plans and any other defined benefit plan qualified under section 401(a) of the Code which is maintained by the Affiliated Companies, was maintained by any other employer while it was an Affiliated Company, or was maintained by an Affiliated Company prior to being acquired by the Company;
  - (2) the Northrop Grumman ERISA Supplemental Plan 1 and the Northrop Grumman Supplemental Plan 2, including the ERISA Supplemental Program 2 described in Appendix B of that plan;

- (3) the Grumman Corporation Supplemental Retirement Plan and the Grumman Excess Plan;
  - (4) the Litton Restoration Plan (Part I benefits only), the Litton Restoration Plan II (Part I benefits only), and the Litton Supplemental Executive Retirement Plan;
  - (5) any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company (“Special Agreements”) for those entitled to it; and
  - (6) any other Company plan, program, arrangement or individual contract which provides a nonqualified, defined benefit pension benefit.
- (c) The limits in (a) may not be exceeded even after the benefits under this Program have been enhanced by the benefit under Special Agreements enhancing age and service.
- (d) For purposes of the offset in (b):
- (1) in the event a Participant’s benefit under this Program commences prior to reaching age 65, benefits under this Program will be offset for the plans described in (b) by converting the benefits paid or payable from such plans to an actuarially equivalent single life annuity benefit commencing upon the earliest retirement age under this Program. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan’s terms and adjusted for different normal forms of benefits or different commencement dates using the actuarial assumptions of Section F.09;
  - (2) in the event a Participant’s benefit under this Program or any plan described in (b) commences upon reaching age 65, benefits under all the plans will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions stated in Section F.09; or
  - (3) in the event a participant has previously received a distribution from one of the applicable Qualified Plans for a period of prior service that is included for purposes of calculating a benefit under this Program, that previously received benefit will not true-up with any other plan upon retirement, but will be treated as accrued separately for all purposes and included for purposes of the Benefit Limit.
- (e) For purposes of this Section, Final Average Salary will be calculated without regard to the limits in section 401(a)(17) of the Code.
- (f) Grandfathered Minimum Benefit. For active Participants under the Program as of June 30, 2003, their benefit at any point in time will never be less than the benefit as computed under the terms of the Program, as they existed on June 30, 2003.

**Section F.08 of the CPC SERP currently provides:**

- F.08 Individual Arrangements: This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement benefits.
- (a) Intent: It is the intent of this Section to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections F.04 or F.07 (as limited by F.05).

- (b) No duplication of benefits: In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company's obligations under an individual arrangement, and vice-versa.
- (c) If the individually-negotiated arrangement provides a benefit in excess of the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under F.05).
- (d) In order to determine which benefit is greater, all benefits will be compared on the basis of an actuarial equivalent single, straight life annuity commencing at the Participant's Normal Retirement Date.
- (e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.
- (f) This Section does not apply to the Special Agreements.

Lump Sum Election**Article 3 of ERISA 2 currently provides:**

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.07, this Article does not apply to active employees (as defined in Section 3.04) in cases where benefits do not exceed \$10,000 and so are automatically payable in lump sum form under Section 2.02.

This Article will not apply if a particular Program so provides.

3.02 Retirees Election. Participants and Participants' beneficiaries already receiving monthly benefits under the Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.

- (a) The election must be made within a 45-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 45-day period in instances where the Company is unable to timely communicate with a particular payee.
- (b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 45-day period.
- (c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.

Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993. The cost charged to the retirees for this coverage will be determined as if the retiree had been employed 20 or more years by the Company.

- (d) If the person receiving payments as of the beginning of the 45-day period dies prior to making a lump sum election, his or her beneficiary, if any, may not make the lump sum election.
- (e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
- (f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 45-day period will be irrevocable. If no proper election has been made by the end of the 45-day period, payments will continue unchanged in the monthly form that had previously been applicable.

3.03 Retirees Lump Sum. If a retired Participant or beneficiary makes a valid election under Section 3.02 within the 45-day period, monthly payments will continue in the previously applicable form for 12 months (assuming the payees live that long).

- (a) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.
- (b) No lump sum payment will be made if:
  - (1) The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the time the lump sum payment is due.
  - (2) The Participant is receiving monthly benefit payments in a form that does provide for survivor benefits but the Participant and the beneficiary die before the time the lump sum payment is due.
- (c) The following rules apply where payment is being made in the form of a 10-year certain and continuous life annuity option:
  - (1) If the Participant is deceased at the commencement of the 45-day election period, the surviving beneficiary may not make the election if there are less than 13 months left in the 10-year certain period.
  - (2) If the Participant elects the lump sum and dies prior to the first of the 13th month:
    - (A) if the 10-year certain period has already ended, all monthly payments will cease at the Participant's death and no lump sum payment will be made;
    - (B) if the 10-year certain period ends after the Participant's death and before the beginning of the 13th month, monthly payments will end at the end of the 10-year certain period and no lump sum payment will be made; and
    - (C) if the 10-year certain period ends after the beginning of the 13th month, monthly payments will continue through the 12th month, and a lump sum payment will be made as of the first of the 13th month, equal to the present value of the remaining benefit payments.

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

- (a) A Participant is considered to be "Active" under this Section if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 45-day period referred to in Section 3.02.
- (b) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
  - (1) Benefits payable to the Participant during his or her lifetime, and
  - (2) Survivor benefits (if any) payable to the Participant's beneficiary, including preretirement death benefits (if any) payable to the Participant's spouse.
- (c) An election does not become effective until the earlier of:



- (1) the Participant's Termination of Employment, or
- (2) the Participant's death.

Before the election becomes effective, it may be revoked.

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

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

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

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

- (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
  - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
  - (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
    - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
    - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
    - (3) the spouse survives to the first of the month following the date of the Participant's death.
- 3.06 Actives Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04, has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
- (a) No monthly benefit payments will be made.
  - (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
  - (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
    - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
    - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
    - (3) the spouse survives to the first of the month following the date of the Participant's death.
  - (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.
- 3.07 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.
- 3.08 Calculation of Lump Sum. The factors to be used in calculating the lump sum are as follows:
- Interest: Whichever of the following two rates that produces the smaller lump sum:

- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
- (2) the applicable interest rate under section 417(e)(3) of the Code that would be used to calculate a lump sum value for the benefit under the Pension Plans.

Mortality: the applicable mortality table under section 417(e)(3) of the Code, which would be used to calculate a lump sum value for the benefit under the Pension Plans.

Increase in Section 415 Limit: 4% per year.

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

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

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

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

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

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

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

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

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

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

Optional Forms of Payment**Section 2.02 of ERISA 2 currently provides:**

2.02 Forms and Times of Benefit Payments. Unless particular rules regarding the form and timing of benefit payments are set forth in a Program, the Company will determine the form and timing of benefit payments in its sole discretion, except where a lump sum election under Article III [containing the rules regarding the election of a lump-sum distribution under the CPC SERP] is applicable.

For payments made to supplement those of a particular tax-qualified retirement or savings plan, the Company will only select among the options available under that plan, using the same actuarial adjustments used in that plan, except in cases of lump sums.

Whenever the present value of the amount payable under the Plan does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.07 below.

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

**Sections 10.06 through 10.11 of the NGPP currently provide:**

- 10.06 50% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 50% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made.
- 10.07 100% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 100% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made.
- 10.08 Contingent Annuitant Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's beneficiary is still alive, a monthly benefit is paid to the beneficiary for the remainder of his or her life which is equal to 50% or 100% of the monthly benefit paid to the Participant. If the beneficiary is not still alive when the Participant dies, no further payments are made.
- 10.09 Straight Life Annuity Option. Under this option, the Participant is paid a monthly benefit for life. No payments are made after the Participant dies.
- 10.10 Ten-Year Certain and Continuous Option. Under this option, the Participant is paid a reduced monthly benefit for life with the provision that should the Participant die within ten years of his or her retirement date, the Participant's beneficiary will receive the same monthly payment that the Participant was receiving for the balance of the 10-year period that began with the Participant's retirement date.
- (a) Payments to the beneficiary will end as of the 10th anniversary of the Participant's retirement date. If the last beneficiary dies before all payments owing to him or her have been made, the remainder shall be paid in a lump sum to his or her estate.

- (b) If the beneficiary dies while the Participant is still alive and before the end of the 10-year period, the Participant may name another beneficiary.
  - (1) The naming of a new beneficiary is subject to the spousal consent requirements if the Participant is married.
  - (2) If the Participant was married at the Annuity Starting Date and is not married to the same person at the time of the beneficiary's death, the Participant must obtain the consent of the spouse to whom he or she was married at the Annuity Starting Date to name a new beneficiary, unless otherwise provided in a Qualified Domestic Relations Order, or unless that spouse has died or spousal consent need not be obtained under Section 10.13(b). If spousal consent is not necessary under the preceding sentence, the Participant may name a new beneficiary without spousal consent, even if the Participant is married at the time he or she names a new beneficiary. If spousal consent must be obtained and is not obtained, any benefits due the beneficiary will be paid in a lump sum to the Participant's estate.
- (c) If the Participant does not die within 10 years after his or her retirement date, payments will continue to the Participant for the rest of his or her life in the same amount and no payments will be made to anyone following the Participant's death.

10.11 Level Income Option. Under this option, a Participant is paid an adjusted monthly benefit for life with payments before age 62 (or age 65, if the Participant so elects) which are higher than those made after that age.

- (a) The purpose of this option is to provide (on an Actuarial Equivalent basis) monthly payments before age 62 (or age 65) approximately equal to the sum of the monthly payment from the Plan after age 62 (or age 65) and the Participant's Social Security benefit. For purposes of calculating the option, the Participant is assumed to commence Social Security benefits at age 62 (or age 65). No payments are made after the Participant dies. This option may not be elected if the benefit at age 62 (or age 65) would be \$25 per month or less.
- (b) This option is available only to Participants who terminate employment after attaining Early Retirement Age and commence benefits before age 65. Thus, this option is not available for a Deferred Vested Retirement Benefit.
- (c) Special Rule for Prorating Amount of Social Security Benefits.
  - (1) In General. Except as provided in (2), the monthly payments under this option are computed using the estimated total amount of a Participant's Social Security benefits at age 62 (or age 65).
  - (2) Special Proration Rule.
    - (A) For Participants described in (B), a prorated amount of the Participant's Social Security benefits is taken into account for each component of the Participant's Accrued Benefit. For this purpose, a Participant's Accrued Benefit consists of three components: the Predecessor Plan Accrued Benefit, the Transition Period Accrued Benefit, and the Projected Cash Balance Benefit. The amount taken into account is the amount bearing approximately the same ratio to the Participant's total Social Security benefits that each component of the Participant's monthly benefits under this Plan bears to all of his or her monthly benefits under this Plan.

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- (B) The special proration rule in (A) applies to a Participant who has an Accrued Benefit attributable to the Projected Cash Balance Benefit and to one or both of the Predecessor Plan Accrued Benefit and the Transition Period Accrued Benefit.

EXHIBIT F  
Claims Procedures

**Sections 15.15 through 15.17 of the NGPP currently provide:**

- 15.15 Claims Procedures. No benefits will be paid under the Plan unless a proper claim is submitted to the Committee for them. The Committee will meet from time to time to review applications for benefits submitted to it. The procedures for claims denials and seeking review of a denial or partial denial of a claim for benefits are described in this Section.
- (a) Notification to claimant of decision. Notice of decision on any claim for benefits shall be furnished to the claimant within 60 days after receipt of the claim by the Committee. A claimant may deem his or her claim to be denied for purposes of further review described below in the event a decision is not furnished to the claimant within such 60-day period.
- (b) Content of notice. Every claimant who is denied a claim for benefits in whole or in part shall receive a written notice setting forth in a manner calculated to be understood by the claimant:
- (1) The specific reason or reasons for the denial;
  - (2) Specific reference to pertinent Plan provisions on which the denial is based;
  - (3) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
  - (4) Appropriate information as to the steps to be taken if the participant or beneficiary wishes to submit his or her claim for review including the time limits set forth in subsections (e) and (f).
- (c) Review procedure. A claimant whose claim has been denied in whole or in part or his or her duly authorized representative may:
- (1) Request a review of the denied claim upon written application to the Committee setting forth:
    - (A) All of the grounds upon which his or her request for review is based and any facts in support of his or her request, and
    - (B) Any issues or comments which the applicant deems pertinent to his or her application; and
  - (2) Review pertinent documents.
- (d) Hearings. In appropriate cases, the Committee may provide for a hearing to be conducted with respect to the review of any claim. In such event, the Committee shall give notice of such hearing to the claimant affected, as well as the procedures for the hearing, such as the length of the hearing, whether witnesses may be presented, whether cross-examination will be allowed and any other matters which the Committee considers pertinent.

- (e) Time For Seeking Review. A claimant may seek review of a denied claim within 65 days after receipt by the claimant of written notification of the denial or partial denial of the claim. Under extraordinary circumstances, the Plan may extend this time period.
- (f) Decision on review.
  - (1) A decision by the Committee shall be made promptly, and shall not ordinarily be made later than 60 days after the Committee's receipt of a request for review.
  - (2) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or other documents governing the Plan on which the decision is based.
  - (3) The decision on review shall be furnished to the claimant within the appropriate time described in paragraph (1) of this subsection. If the decision on review is not furnished within such time, the claim shall be deemed denied on review.
  - (4) The decision of the Committee on any application for benefits shall be final and conclusive upon all persons if supported by substantial evidence in the record.
- (g) Disclosure of Claim Procedures. All Plan participants will be given a description of the claims procedures, which shall include a description of the time limits set forth in (a), (e) and (f), within a reasonable time after joining the Plan.

15.16 Exhaustion Requirement.

- (a) A claimant must exhaust the claims procedures described in Section 15.15 before he may bring a legal action in court against any of the Plan Parties.
- (b) This Section 15.16 applies if Section 15.15(a) applies; that is, if a claimant does not receive payment of the benefits he believes he is entitled to under the Plan or has any other grievance with respect to his benefits under the Plan.
- (c) "Plan Parties" means the Plan, the Company and any Affiliated Company and their respective boards of directors, the Trustee, the Committee, the Investment Committee, and the employees or agents of these entities.

15.17 Time Limitations.

- (a) A claimant may not file a claim in accordance with Section 15.15 later than three years from the time the claim arises under (d).
- (b) A claimant may not bring a legal action against the Plan Parties (as defined in Section 15.16(c)) in court after the latest of:
  - (1) Three years from the time the claim arises (within the meaning of (d));
  - (2) July 1, 2004 (one year after the date this provision took effect); and
  - (3) If a claim is made in accordance with Section 15.15 within the time periods described in (b)(1) or (b)(2) above, 90 days from the final disposition of the claim by the Committee.



- (c) If the statute of limitations period for filing suit on a claim expires prior to the time limit in (b), this Section is not intended to permit suit to be filed after the end of the statute of limitations period. In other words, suit must be filed by the earlier of the end of the statute of limitations period or the time limit in (b).
- (d) When a Claim Arises.
- (1) A claim arises no later than the earliest of the following:
- (A) For any claimant, the Committee's initial denial of the claimant's claim for benefits (whether the denial is in writing or because the review period expires without any action);
- (B) For any claimant, the commencement of the claimant's benefits; or
- (C) The latest of:
- (i) In the case of a Participant's (or former Participant's) claim, his Normal Retirement Date;
- (ii) In the case of a Participant's (or former Participant's) claim, his termination of employment; or
- (iii) In the case of any claimant, 90 days after the first statement of pension benefits is furnished to him.
- (2) To the extent the claim of a beneficiary or alternate payee is based on the amount of benefits a Participant had earned, the claim arises at the same time for the beneficiary or alternate payee as it would for the Participant. This does not apply to the extent the claim relates only to the beneficiary's or alternate payee's rights.
- Example 1: A Beneficiary claims that his survivor benefit should be larger because the Participant's benefit should have been larger. In this case, the Beneficiary's claim arises no later than a claim by the Participant would have arisen.
- Example 2: A Beneficiary claims that she should get the Participant's survivor benefit rather than some other person. This claim arises only by reference to the beneficiary herself and so is not subject to the same time limits as a claim by the Participant.
- (3) This subsection only sets the latest date a claim will be deemed to arise. A claim may arise earlier, at the time a claim arises for statute of limitations purposes.

**EXECUTIVE PERQUISITE SUMMARY**

**EXECUTIVE VEHICLE ALLOWANCE**

The Allowance includes consideration for the cost of vehicle insurance, licensing, inspections, routine maintenance (such as oil changes), normal wear (such as tires and brakes) and nominal business use. No separate reimbursement for business use of your vehicle will be provided.

The Allowance amount is currently \$15,000 annually, payable in pay period increments (weekly, semi-monthly, etc.). The Company will also reimburse expenses for fuel and washes.

**FINANCIAL PLANNING AND INCOME TAX RETURN PREPARATION**

The Financial Planning and Income Tax Return Preparation Program can assist you in developing your personal financial plans. Under this program, you may select any reputable professional financial planning, tax return preparation, or accounting firm.

The program provides reimbursement of billed charges for financial planning and/or income tax return preparation services. This includes fees incurred for the preparation or revision of trusts, wills and related legal documents. There is a maximum payment of \$9,000 per year of program participation.

**CLUB MEMBERSHIPS**

Club Membership reimbursement under the Executive Perquisite Program provides you reimbursement of certain costs of membership in a social, luncheon, athletic or country club.

Under this program, the company will reimburse the cost, to a maximum of \$5,000 per year, for initiation fees, monthly dues, and general club assessments for two clubs. Locker fees, greens fees, cart rentals, apparel or accessories, food (including food reserves or minimums), lessons and the like will not be reimbursed.

**TRAVEL BENEFITS**

**First-Class Air Travel**

For air travel of two hours or longer, you may fly first class.

**Airline Clubs**

The company will reimburse you for membership in two airline clubs.

**PERSONAL LIABILITY INSURANCE**

The personal liability insurance under the Executive Perquisite Program provides you with **\$5,000,000** coverage anywhere in the world. As with all insurance policies, there are certain requirements and limitations of which you should be aware.

The liability coverage provided by this program requires that you obtain and maintain specified minimum underlying coverage through your current personal insurance policies.

**EXECUTIVE PHYSICAL EXAMINATIONS**

Each year you may have a comprehensive physical examination at the location of your choice. You may also elect to go to your personal physician. Your medical plan covers up to \$1,500 for the exam or one of the alternatives listed below.

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**INSURANCE**

AD& D - 6 x salary to \$1,000,000 maximum

LIFE - 3 x salary to \$2,000,000 maximum

LTD - 75% of salary to a maximum of \$25,000 per month

**MEDICAL**

Fully insured 100% coverage, no deductible, no co-pays for executive and eligible dependents. \$2,000,000 lifetime maximum. Requires employee premium contributions.

**DENTAL**

Fully insured 100% coverage, no deductible, no co-pays for executive and eligible dependents. \$4,000 annual maximum. Requires employee premium contributions.

**VISION**

Reimbursement to \$250 per year.

**EXHIBIT C TO EMPLOYMENT AGREEMENT**

**NORTHROP GRUMMAN CORPORATION  
MARCH 2004 SPECIAL AGREEMENT**

**THIS AGREEMENT** is made and entered into by and between Northrop Grumman Corporation, a Delaware corporation (hereinafter referred to as the "Company") and Charles H. Noski (hereinafter referred to as the "Executive").

**RECITALS**

The Board of Directors of the Company has approved the Company entering into a severance agreement with the Executive.

The Executive is a key executive of the Company.

Should the possibility of a Change in Control of the Company arise, the Board believes it imperative that the Company and the Board should be able to rely upon the Executive to continue in his position, and that the Company should be able to receive and rely upon the Executive's advice, if requested, as to the best interests of the Company and its stockholders without concern that the Executive might be distracted by the personal uncertainties and risks created by the possibility of a Change in Control.

Should the possibility of a Change in Control arise, in addition to his regular duties, the Executive may be called upon to assist in the assessment of such possible Change in Control, advise management and the Board as to whether such Change in Control would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate.

**NOW THEREFORE**, to assure the Company that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat, or occurrence of a Change in Control of the Company, and to induce the Executive to remain in the employ of the Company in the face of these circumstances and for other good and valuable consideration, the Company and the Executive agree as follows:

**Article 1. Term**

This Agreement shall be effective as of December 1, 2003 (the "Effective Date"). This Agreement will continue in effect through February 28, 2007. However, at the end of such period and, if extended, at the end of each additional year thereafter, the term of this Agreement shall be extended automatically for one (1) additional year, unless the Committee delivers written notice at least six (6) months prior to the end of such term, or extended term, to the Executive that this Agreement will not be extended, and if such notice is timely given this Agreement will terminate at the end of the term then in progress; provided, however, that this provision for automatic extension shall have no application following a Change in Control.

However, in the event a Change in Control occurs during the original or any extended term, this Agreement will remain in effect for the longer of: (i) twenty-four (24) months beyond the month in which such Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to the Executive. Any subsequent Change in Control ("Subsequent Change in Control") that occurs during the original or any extended term shall also continue the term of this Agreement until the later of: (i) twenty-four (24) months beyond the month in which such Subsequent Change in Control occurred; or (ii) until all obligations of the Company hereunder have been fulfilled, and until all benefits required hereunder have been paid to the Executive; provided, however, that if a Subsequent Change in Control occurs, it shall only be considered a Change in Control under this Agreement if it occurs no later than twenty-four (24) months after the immediately preceding Change in Control or Subsequent Change in Control.

## Article 2. ERISA

This Agreement is intended as part of a severance program of the Company that constitutes (i) a pension plan within the meaning of Section 3(2) of ERISA, and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA.

## Article 3. Definitions

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

- (a) "Agreement" means this March 2004 Special Agreement.
- (b) "Base Salary" means the salary of record paid to the Executive by the Company as annual salary (whether or not deferred), but excludes amounts received under incentive or other bonus plans.
- (c) "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- (d) "Beneficiary" means the persons or entities designated or deemed designated by the Executive pursuant to Section 11.2.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" shall mean the occurrence of either or both of the following:
  - (i) The Executive'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 Executive in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.
- (g) "Change in Control" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:
  - (i) Any Person (other than those Persons in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this clause (i): (A) "Person" or "group" shall not

include underwriters acquiring newly issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

- (ii) On any day after the Effective Date (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:
- (1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or
  - (2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office.

“Initial Date” means the later of (1) the Effective Date or (2) the date that is two (2) years before the Measurement Date.

- (iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any

successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

- (iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the Effective Date constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

- (h) "Code" means the United States Internal Revenue Code of 1986, as amended.
- (i) "Committee" means the Compensation and Management Development Committee of the Board, or any other committee appointed by the Board to perform the functions of the Compensation and Management Development Committee.
- (j) "Company" means Northrop Grumman Corporation, a Delaware corporation (including, for purposes of determining whether the Executive is employed by the Company, any and all subsidiaries specified by the Committee), or any successor thereto as provided in Article 10.
- (k) "Controlling Parent" means the Company's Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one "Parent," then "Controlling Parent" shall mean the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person.
- (l) "Disability" means disability as defined in the Company's long-term disability plan in which the Executive participates at the relevant time or, if the Executive does not participate in a Company long-term disability plan at the relevant time, as such term is defined in the Company's principal long-term disability plan that generally covers the Company's senior-level executives at that time.
- (m) "Effective Date" means December 1, 2003.
- (n) "Effective Date of Termination" means the date on which a Qualifying Termination occurs.
- (o) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- (p) "Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

- (q) “Executive” means the individual identified in the first sentence, and on the signature page, of this Agreement.
- (r) “Good Reason” means, without the Executive’s express written consent, the occurrence of any one or more of the following:
- (i) A material reduction in the nature or status of the Executive’s authorities, duties, and/or responsibilities, (when such authorities, duties, 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 an insubstantial and inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Executive; provided that if the Executive is a vice president, for purposes of the preceding phrase the Executive’s loss of vice president status (other than a promotion to a higher level officer) will constitute Good Reason. In addition, Good Reason will be deemed to exist if the Executive’s reporting relationship is diminished from the Executive’s reporting relationship in effect on the day immediately prior to the start of the Protected Period (for example, if the Executive reports directly to the Company’s Chief Executive Officer on the day immediately prior to the start of the Protected Period, Good Reason will be deemed to exist if the Executive’s reporting relationship is changed such that the Executive no longer reports directly to the Chief Executive Officer of the Company or any Parent or directly to the Board of Directors of the Company or any Parent).
  - (ii) A reduction by the Company in the Executive’s Base Salary as in effect on the Effective Date or as the same shall be increased from time to time.
  - (iii) A significant reduction by the Company of the Executive’s aggregate incentive opportunities under the Company’s short and/or long-term incentive programs, as such opportunities exist on the Effective Date, or as such opportunities may be increased after the Effective Date. For this purpose, a significant reduction in the Executive’s incentive opportunities shall be deemed to have occurred in the event his targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities are diminished by the Company from the levels and probability of attainment that existed as of the Effective Date.
  - (iv) The failure of the Company to maintain (x) the Executive’s relative level of coverage and accruals under the Company’s employee benefit and/or retirement plans, policies, practices, or arrangements in which the Executive participates as of the Effective Date, both in terms of the amount of benefits provided, and amounts accrued and (y) the relative level of the Executive’s participation in such plans, policies, practices, or arrangements on a basis at least as beneficial as, or substantially equivalent to, that on which the Executive participated in such plans immediately prior to the Effective Date. For this purpose, the Company may eliminate and/or modify existing programs and coverage levels; provided, however, that the Executive’s level of coverage under all such programs must be at least as great as is provided to executives who have the same or lesser levels of reporting responsibilities within the Company’s organization.
  - (v) The failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement, as contemplated in Article 10.
  - (vi) Any purported termination by the Company of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 4.8 and for purposes of this Agreement, no such purported termination shall be effective.



- (vii) The Executive 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 Executive'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 (vii) more than ninety (90) days before such intended effective date.

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

- (s) "Parent" means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company's assets, directly or indirectly through one or more subsidiaries.
- (t) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.
- (u) "Qualifying Termination" has the meaning given to such term in Sections 4.3(a) and 4.3(b).
- (v) "Severance Benefits" means the payments and/or benefits provided in Section 4.4.

#### **Article 4. Severance Benefits**

**4.1. Right to Severance Benefits.** The Executive shall be entitled to receive from the Company Severance Benefits, as described in Section 4.4, if the Executive has incurred a Qualifying Termination.

The Executive shall not be entitled to receive Severance Benefits if his employment terminates (regardless of the reason) before the Protected Period (as such term is defined in Section 4.3(d)) corresponding to a Change in Control of the Company or more than twenty-four (24) months after the date of a Change in Control of the Company.

**4.2. Services During Certain Events.** In the event a Person begins a tender or exchange offer, circulates a proxy to stockholders of the Company, or takes other steps seeking to effect a Change in Control, the Executive agrees that he will not voluntarily leave the employ of the Company and will continue to render services until the later of (i) the date such Person has abandoned or terminated his or its efforts to effect a Change in Control, and (ii) the date that is six (6) months after a Change in Control has occurred. Notwithstanding the foregoing, the Company may terminate the Executive's employment for Cause at any time, and the Executive may terminate his employment at any time after the Change in Control for Good Reason.

#### **4.3. Qualifying Termination.**

- (a) Subject to Sections 4.3(e), 4.3(f), 4.5, 4.6 and 4.7, the occurrence of any one or more of the following events 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 shall constitute a "Qualifying Termination":

- (i) An involuntary termination of the Executive's employment by the Company for reasons other than Cause;
  - (ii) A voluntary termination of employment by the Executive for Good Reason;
  - (iii) A successor company fails or refuses to assume by written instrument the Company's obligations under this Agreement, as required by Article 10; or
  - (iv) The Company or any successor company repudiates or breaches any of the provisions of this Agreement.
- (b) Subject to Sections 4.3(e), the Executive shall also be deemed to have had a "Qualifying Termination" if each of the following conditions is satisfied:
- (i) A Change in Control of the Company occurs; and
  - (ii) At any time after the start of the Protected Period corresponding to such Change in Control and on or before the last day of the twelfth (12th) month following the month in which the Change in Control occurs, the Chief Executive Officer of the Company on the day immediately prior to the start of such Protected Period ceases for any reason (other than due to either (a) the death of the Chief Executive Officer, (b) the Chief Executive Officer's termination of employment due to his or her disability (within the meaning of the Company's long-term disability plan in which the Chief Executive Officer participates at the relevant time or, if the Chief Executive Officer does not participate in a Company long-term disability plan at the relevant time, as such term is defined in the Company's principal long-term disability plan that generally covers the Company's senior-level executives at that time), or (c) the Chief Executive Officer's termination of employment on account of reaching mandatory retirement age (as such age may be defined from time to time in policies adopted by the Company prior to the commencement of the Protected Period, and consistent with applicable law)) to be the Chief Executive Officer of the Company or of a Parent; and
  - (iii) The Executive remains continuously employed by the Company through the last day of the twelfth (12th) month following the month in which the first Change in Control of the Company occurs; and
  - (iv) The Executive terminates employment with the Company (whether or not for Good Reason, but other than due to the Executive's death) during the thirteenth (13th) month following the month in which the first Change in Control of the Company occurs; and
  - (v) The Company does not have Cause to terminate the Executive's employment at the time of the Executive's termination; provided that if the Company intends to assert that it had Cause to terminate the Executive's employment it must promptly deliver a written Notice of Termination to the Executive pursuant to Section 11.6 setting forth its claimed basis for Cause even if such notice is delivered after the termination of employment by the Executive.
- (c) If more than one of the events set forth in Sections 4.3(a) and 4.3(b) occurs, such events shall constitute but a single Qualifying Termination and the Executive shall be entitled to but a single payment of the Severance Benefits.
- (d) 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.
- (e) Notwithstanding anything else contained herein to the contrary, the Executive's termination of employment on account of reaching mandatory retirement age, as such age may be defined from time to time in policies adopted by the Company prior to the commencement of the Protected Period, and consistent with applicable law, shall not be a Qualifying Termination.
- (f) Notwithstanding anything else contained herein to the contrary, the termination of the Executive's employment (or other events giving rise to Good Reason) shall not constitute a Qualifying Termination if there is objective evidence that, as of the commencement of the Protected Period, the Executive 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.
- (g) Notwithstanding anything else contained herein to the contrary (other than those provisions that contain an express exception to this Section 4.3(g)), the Executive's Severance Benefits under this Agreement shall be reduced by the severance benefits (including, without limitation, any other change-in-control severance benefits and any other severance benefits generally) that the Executive may be entitled to under any other plan, program, agreement or other arrangement with the Company (including, without limitation, any such benefits provided for by an employment agreement, a prior Northrop Grumman Corporation Special Agreement, a Northrop Grumman Corporation March 2000 Special Agreement, under the prior Northrop Grumman Corporation Change-In-Control Severance Plan, or under the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan); provided that if the Executive is otherwise entitled to receive Severance Benefits under this Agreement and severance benefits under the Northrop Grumman Corporation March 2004 Change-In-Control Severance Plan, benefits shall be paid under this Agreement rather than under such plan. For purposes of the foregoing, any cash severance benefits payable to the Executive under any other plan, program, agreement or other arrangement with the Company shall offset the cash severance benefits otherwise payable to the Executive under this Agreement on a dollar-for-dollar basis. For purposes of the foregoing, non-cash severance benefits to be provided to the Executive under any other plan, program, agreement or other arrangement with the Company shall offset any corresponding benefits otherwise to be provided to the Executive under this Agreement or, if there are no corresponding benefits otherwise to be provided to the Executive under this Agreement, the value of such

benefits shall offset the cash severance benefits otherwise payable to the Executive under this Agreement on a dollar-for-dollar basis. If the amount of other benefits to be offset against the cash severance benefits otherwise payable to the Executive under this Agreement in accordance with the preceding two sentences exceeds the amount of cash severance benefits otherwise payable to the Executive under this Agreement, then the excess may be used to offset other non-cash severance benefits otherwise to be provided to the Executive under this Agreement on a dollar-for-dollar basis. For purposes of this paragraph, the Company shall reasonably determine the value of any non-cash benefits.

**4.4. Description of Severance Benefits.** In the event that the Executive becomes entitled to receive Severance Benefits, as provided in Sections 4.1 and 4.3, the Company shall pay to the Executive and provide him or her with the following:

- (a) An amount equal to three (3) times the highest rate of the Executive's annualized Base Salary in effect at any time up to and including the Effective Date of Termination.
- (b) An amount equal to three (3) times the greater of: (i) the highest of the Executive's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for any one of the three (3) full fiscal years prior to the date of the Change in Control of the Company; or (ii) the Executive's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the Change in Control of the Company occurs. (The greater of the amount determined pursuant to clause (i) or clause (ii) in the preceding sentence with respect to the Executive is referred to as the Executive's "Bonus Amount.") Special bonuses or bonus enhancements that would otherwise be included for purposes of the calculation pursuant to the first sentence of this Section 4.4(b), but that are related to a merger, acquisition, consolidation, reorganization, spin-off or similar event and that are not part of the Company's customary on-going program of Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) bonuses shall be excluded for purposes of such calculation.
- (c) An amount in settlement of the Executive's bonus opportunity under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the fiscal year in which the Effective Date of Termination occurs, such amount determined as follows:
  - (i) If the Effective Date of Termination occurs in the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the sum of:
    - (A) the greater of (X) or (Y) multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year through the date of the Change in Control of the Company and the denominator of which is three hundred sixty-five (365), where (X) is the Executive's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year and (Y) is the amount of bonus that the Executive would be entitled to under the Company's Performance Achievement Plan or Incentive Compensation Plan (or any successor bonus program) for that fiscal year assuming that the Executive's employment had not terminated and based on performance through the date of the Change in Control of the Company relative to the pre-approved performance goals for that year; plus

- (B) the Executive's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year following the date of the Change in Control of the Company through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (ii) If the Effective Date of Termination occurs in a fiscal year following the fiscal year in which the Change in Control of the Company occurs, then such amount shall equal the Executive's Bonus Amount multiplied by a fraction, the numerator of which is the number of days completed in the fiscal year in which the Effective Date of Termination occurs through the Effective Date of Termination and the denominator of which is three hundred sixty-five (365).
- (d) A continuation of the Executive's medical coverage, dental coverage, and group term life insurance for the Executive, his spouse, and his eligible dependents for the three (3) years following the Executive's Effective Date of Termination; provided that such continuation of coverage shall run concurrently with COBRA continuation or similar state law continuation periods; and provided further that the continuation of such coverage shall be discontinued prior to the end of the three (3) year period in the event the Executive has available substantially similar benefits from a subsequent employer, as reasonably determined by the Committee. Except as provided in the next sentence, such benefits shall be provided to the Executive at the same premium cost, and at the same coverage level, as in effect as of the Executive's Effective Date of Termination. However, in the event the premium cost and/or level of coverage shall change for all employees of the Company, the cost and/or coverage level, likewise, shall change for the Executive in a corresponding manner. The continuation of coverage for the period contemplated by this Section 4.4(d) shall be coordinated with and paid secondary to any benefits that the Executive, his spouse, or his dependent receives from another employer or from Medicare (following the Executive's, his spouse's, and/or his dependent's entitlement to Medicare benefits) to the maximum extent permissible under relevant law. Notwithstanding the foregoing provisions of this Section 4.4(d), if the Executive is eligible to commence benefits under the Company's Special Officer Retiree Medical Plan ("SORMP") as of the Effective Date of Termination, then the Executive shall receive medical and dental continuation coverage pursuant to the SORMP instead of the continuation coverage contemplated by the foregoing provisions of this Section 4.4(d). Any other continuation of medical, dental, or group term life insurance that the Executive may otherwise be entitled to upon or following his Effective Date of Termination in accordance with the express terms of a Company welfare benefit plan shall not give rise to an offset pursuant to Section 4.4(g) and shall not be deemed to duplicate the benefits of the continuation coverage contemplated by this Section 4.4(d).
- (e) A lump-sum cash amount equal to (i) minus (ii), with (i) and (ii) determined as follows:
  - (i) equals the actuarial present value equivalent of the aggregate benefits accrued by the Executive as of his Effective Date of Termination under the qualified defined benefit pension plan or plans in which the Executive participates (the "qualified plan"), and under any and all supplemental defined benefit retirement plans in which the Executive participates, calculated as if the Executive's employment continued for three (3) full years following the Executive's Effective Date of Termination (i.e., the Executive receives three (3) additional years of vesting and benefit accruals, including, if the Executive is a participant in a cash balance plan, three years of projected post-termination interest credits based on the interest rate in effect at termination, and his age is also increased three (3) years from his age as of his Effective Date of Termination); provided, however, that for purposes of determining "Final Average Pay" under such plans, the Executive's actual pay history as of the Effective Date of Termination shall be used; and

- (ii) equals the actuarial present value equivalent of the aggregate benefits payable to the Executive as of his Effective Date of Termination under the qualified plan and under any and all supplemental defined benefit retirement plans in which the Executive participates, calculated assuming that the Executive retired and went into pay status under the terms of such plans on or as soon as possible after his Effective Date of Termination.

The intent of this Section 4.4(e) is that the qualified plan and any supplemental defined benefit retirement plan benefits will be paid in the normal course under the terms of those plans, with the additional benefits payable as a result of the imputation of age and service under this provision being paid from this Agreement. The Executive shall also be entitled to an additional three (3) years of age and service to count towards eligibility under one or more of the Company retiree medical programs for which the Executive would have been eligible absent any such termination.

- (f) Reimbursement by the Company for the costs of all outplacement services obtained by the Executive within the one (1) year period after the Effective Date of Termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Executive's Base Salary as of the Effective Date of Termination.
- (g) An amount equal to three (3) times the greater of: (i) the annual value of the perquisites provided to the Executive under the Company's Executive Perquisite Program as such program is in effect at the start of the Protected Period corresponding to the Change in Control of the Company, or (ii) the annual value of the perquisites provided to the Executive under the Company's Executive Perquisite Program as such program is in effect immediately before the Effective Date of Termination. The Company shall determine the annual value of such perquisites on a reasonable basis. This Section 4.4(g) is not intended to provide for the duplication of any welfare benefits that are otherwise provided by Section 4.4(d) or which would otherwise continue for three (3) years or more following the Executive's Effective Date of Termination. For example, if a welfare benefit otherwise provided by Section 4.4(d) is also included in the Executive Perquisite Program, such welfare benefit shall be excluded from the Executive Perquisite Program for purposes of the calculations pursuant to this Section 4.4(g).

**4.5. Termination for Total and Permanent Disability.** Except as provided in Section 4.3(b), termination of the Executive's employment due to Disability is not a Qualifying Termination. However, if immediately prior to the condition or event leading to, or the commencement of, the Disability of the Executive, the Executive would have experienced a Qualifying Termination if he had terminated at that time, then upon termination of his employment for Disability he shall be entitled to the benefits provided by this Agreement for a Qualifying Termination.

**4.6. Termination for Retirement or Death.** Termination of the Executive's employment due to death or, except as provided in Section 4.3(b), retirement is not a Qualifying Termination. However, if immediately prior to the Executive's retirement (but not death), the Executive would have experienced a Qualifying Termination if he had terminated at that time, then upon his retirement he shall (subject to Section 4.3(e)) be entitled to the benefits provided by this Agreement for a Qualifying Termination.

**4.7. Termination for Cause or by the Executive Other Than for Good Reason.** Termination of the Executive's employment by the Company for Cause or, except as provided in Section 4.3(b), by the Executive other than for Good Reason does not constitute a Qualifying Termination.

**4.8. Notice of Termination.** Any termination by the Company for Cause or by the Executive for Good Reason shall be communicated by a Notice of Termination. For purposes of this Agreement, a “Notice of Termination” shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.

**Article 5. Form and Timing of Severance Benefits; Tax Withholding; Funding of Rabbi Trust**

**5.1. Form and Timing of Severance Benefits.** The Severance Benefits described in Section 4.4(a), 4.4(b), 4.4(c), 4.4(e), and 4.4(g) shall be paid in cash to the Executive in a single lump sum as soon as practicable following the Effective Date of Termination, but in no event beyond thirty (30) days from such date.

**5.2. Withholding of Taxes.** The Company shall be entitled to withhold from any amounts payable under or pursuant to this Agreement all taxes as legally shall be required (including, without limitation, any United States Federal taxes, and any other state, city, or local taxes).

**5.3. Funding of Rabbi Trust.** To the extent the Company is obligated to make a contribution to any rabbi trust, pursuant to the express terms of such trust, upon or with respect to a Protected Period or the occurrence of a Change in Control, the Company shall make such required contribution in accordance with the terms of such trust.

**Article 6. Excise Tax Gross-Up**

**6.1. Equalization Payment.** If upon or following a Change in Control, the tax imposed by Section 4999 of the Code or any similar or successor tax (the “Excise Tax”) applies, solely because of the Change in Control, to any payments, benefits and/or amounts received by the Executive as Severance Benefits or otherwise, including, without limitation, any fees, costs and expenses paid under Article 9 of this Agreement and/or any amounts received or deemed received, within the meaning of any provision of the Code, by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Company’s incentive plans, including without limitation, the 2001 Long-Term Incentive Stock Plan, the 1993 Long Term Incentive Stock Plan, the 1987 Long Term Incentive Plan and the 1981 Long-Term Incentive Plan, the Company shall pay in cash to the Executive or for the Executive’s benefit as provided below an additional amount or amounts (the “Gross-Up Payment(s)”) such that the net amount retained by the Executive after the deduction of any Excise Tax on such payments, benefits and/or amounts so received and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section 6.1 shall be equal to such payments, benefits and/or amounts so received had they not been subject to the Excise Tax. Such payment(s) shall be made by the Company to the Executive or applicable taxing authority on behalf of the Executive as soon as practicable following the receipt or deemed receipt of any such payments, benefits and/or amounts so received, and may be satisfied by the Company making a payment or payments on Executive’s account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such payment, benefit and/or amount.

**6.2. Calculation of Gross-Up Payment.** The determination of whether a Gross-Up Payment is required pursuant to this Article 6 and the amount of any such Gross-Up Payment shall be determined in writing (the “Determination”) by a nationally-recognized certified public accounting firm selected by the Company (the “Accounting Firm”). The Accounting Firm shall provide its Determination in writing, together with detailed supporting calculations and documentation and any assumptions used in making such computation, to the Company and the Executive within twenty (20) days of the Effective Date of Termination. Within twenty (20) days following delivery of the Accounting Firm’s Determination, the Executive shall have the right, at the Company’s expense, to obtain the opinion of an “outside counsel,” which opinion need not be unqualified, which sets forth: (i) the amount of the Executive’s “annualized includible compensation for the base period” (as defined in Code Section 280G(d) (1)); (ii) the present

value of the Total Payments; (iii) the amount and present value of any “excess parachute payment;” and (iv) detailed supporting calculations and documentation and any assumptions used in making such computations. The opinion of such outside counsel shall be supported by the opinion of a nationally-recognized certified public accounting firm and, if necessary or required by the Company, a firm of nationally-recognized executive compensation consultants. The outside counsel’s opinion shall be binding upon the Company and the Executive and shall constitute the “Determination” for purposes of this Article 6 instead of the initial determination by the Accounting Firm. The Company shall pay (or, to the extent paid by the Executive, reimburse the Executive for) the certified public accounting firm’s and, if applicable, the executive compensation consultant’s reasonable and customary fees for rendering such opinion. For purposes of this Section 6.2, “outside counsel” means a licensed attorney selected by the Executive who is recognized in the field of executive compensation and has experience with respect to the calculation of the Excise Tax; provided that the Company must approve the Executive’s selection, which approval shall not be unreasonably withheld.

**6.3. Computation Assumptions.** For purposes of determining whether any payments, benefits and/or amounts, including amounts paid as Severance Benefits, will be subject to Excise Tax, and the amount of any such Excise Tax:

- (a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon a Change in Control of the Company or the Executive’s termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, or with any Person whose actions result in a Change in Control of the Company or any Person affiliated with the Company or such Persons) shall be combined to determine whether the Executive has received any “parachute payment” within the meaning of Section 280G(b)(2) of the Code, and if so, the amount of any “excess parachute payments” within the meaning of Section 280G(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of the person or firm rendering the Determination, such other payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;
- (b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the person or firm rendering the Determination in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.
- (c) The compensation and benefits provided for in Section 4.4 herein, and any other compensation earned prior to the Effective Date of Termination by the Executive pursuant to the Company’s compensation programs (if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change in Control), shall for purposes of the calculation pursuant to this Section 6.3 be deemed to be reasonable; and
- (d) The Executive shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Furthermore, the computation of the Gross-Up Payment shall assume (and adjust for the fact) that (i) there is a loss of miscellaneous itemized deductions under Section 67 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment and (ii) a loss of itemized deductions under Section 68 of the Code (or analogous federal or state provisions) on account of the Gross-Up Payment. The computation of the Gross-Up Payment shall take into account any reduction in the Gross-Up Payment due to the Executive’s share of the hospital insurance portion of FICA and any state withholding taxes (other than any state withholding tax for income tax liability). The computation of the state and local income taxes applicable to the Gross-Up Payment



shall be based on the highest marginal rate of taxation in the state and locality of the Executive's residence on the Effective Date of Termination, and shall take into account the maximum reduction in Federal income taxes that could be obtained from the deduction of such state and local taxes.

**6.4. Executive's Obligation to Notify Company.** The Executive shall promptly notify the Company in writing of any claim by the Internal Revenue Service (or any successor thereof) or any state or local taxing authority (individually or collectively, the "Taxing Authority") that, if successful, would require the payment by the Company of a Gross-Up Payment in excess of any Gross-Up Payment as originally set forth in the Determination. If the Company notifies Executive in writing that it desires to contest such claim, the Executive shall: (a) give the Company any information reasonably requested by the Company relating to such claim; (b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company that is reasonably acceptable to Executive; (c) cooperate with the Company in good faith in order to effectively contest such claim; and (d) permit the Company to participate in any proceedings relating to such claim; provided that the Company shall bear and pay directly all attorneys fees, costs and expenses (including additional interest, penalties and additions to tax) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed in relation to such claim and in relation to the payment of such costs and expenses or indemnification. Without limitation on the foregoing provisions of this Section 6.4, and to the extent its actions do not unreasonably interfere with or prejudice the Executive's disputes with the Taxing Authority as to other issues, the Company shall control all proceedings taken in connection with such contest and, in its reasonable discretion, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Taxing Authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax, interest or penalties claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance an amount equal to such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from all taxes (including, without limitation, income and excise taxes), interest, penalties and additions to tax imposed with respect to such advance or with respect to any imputed income with respect to such advance, as any such amounts are incurred; and, further, provided, that any extension of the statute of limitations relating to payment of taxes, interest, penalties or additions to tax for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount; and, provided, further, that any settlement of any claim shall be reasonably acceptable to the Executive and the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue.

**6.5. Subsequent Recalculation.** In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive did not receive the greatest net benefit required pursuant to Section 6.1, the Company shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied. In the event of a binding or uncontested determination by the Taxing Authority that adjusts the computation set forth in the Determination so that the Executive received a payment or benefit in excess of the amount required pursuant to Section 6.1, then the Executive shall promptly pay to the Company (without interest) the amount of such excess.

#### **Article 7. The Company's Payment Obligation**

**7.1. Payment of Obligations Absolute.** Except as provided in Sections 4.3(g) and 5.2 and in Article 6, the Company's obligation to make the payments and the arrangements provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without

limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Executive or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Company shall be final, and the Company shall not seek to recover all or any part of such payment from the Executive or from whomsoever may be entitled thereto, for any reasons whatsoever, except as otherwise provided in Article 6 or Article 9.

The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Agreement, except to the extent provided in Section 4.4(d).

**7.2. Contractual Right to Benefits.** This Agreement establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder. The Company expressly waives any ability, if possible, to deny liability for any breach of its contractual commitment hereunder upon the grounds of lack of consideration, accord and satisfaction or any other defense. In any dispute arising after a Change in Control as to whether the Executive is entitled to benefits under this Agreement, there shall be a presumption that the Executive is entitled to such benefits and the burden of proving otherwise shall be on the Company. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

**7.3. Pension Plans; Duplicate Benefits.** All payments, benefits and amounts provided under this Agreement shall be in addition to and not in substitution for any pension rights under the Company's tax-qualified pension plan, supplemental retirement plans, nonqualified deferred compensation plans, and any disability, workers' compensation or other Company benefit plan distribution that the Executive is entitled to at his or her Effective Date of Termination. Notwithstanding the foregoing, this Agreement shall not create an inference that any duplicate payments shall be required. No payments made pursuant to this Agreement shall be considered compensation for purposes of any such benefit plan; provided that any amount paid pursuant to Section 4.4(c) shall not be subject to such limitation. Payment of the Executive's accrued and unpaid Base Salary and accrued vacation pay through the Executive's Effective Date of Termination shall be deemed to not duplicate any benefit contemplated by this Agreement and shall not result in an offset pursuant to Section 4.3(g). Any acceleration of vesting, lapse of restrictions and/or payout occasioned by a Change in Control pursuant to the provisions of any long-term incentive plan and/or individual award agreement under such a long-term incentive plan shall be deemed to not duplicate any benefit contemplated by this Agreement and shall not result in an offset pursuant to Section 4.3(g).

#### **Article 8. Trade Secrets; Non-Solicitation and Non-Disparagement**

By executing this Agreement and again by receiving any benefits provided for by this Agreement, the Executive agrees as follows:

- (a) In the course of performing his or her duties for the Company, the Executive will receive, and acknowledges that he or she has received, confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." The Executive agrees that he or she will not, either during his or her employment or subsequent to the termination of his or her employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Trade Secret of the Company or any of its affiliates to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company, without prior written authorization from the Company to do so.

The Executive further agrees that if, at the time of the termination of his or her employment with the Company, he or she is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, the Executive will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this Section 8(a) shall be in addition to any protection afforded to Trade Secrets by law or equity and in addition to any protection afforded to Trade Secrets by any other agreement between the Executive and the Company.

- (b) For a period of one year following the termination of the Executive's employment with the Company, the Executive shall not, directly or indirectly through, aid, assistance or counsel, on the Executive's own behalf or on behalf of another person or entity (i) contact, solicit or offer to hire any person who was, within a period of six months prior to the termination of the Executive's employment with the Company, employed by the Company or one of its subsidiaries, or (ii) by any means issue or communicate any private or public statement that may be critical or disparaging of the Company or any of its affiliates, or any of their respective products, services, officers, directors or employees.

## **Article 9. Claims Procedure**

**9.1. Committee Review.** The Executive or, in the event of the Executive's death, the Executive's Beneficiary (as applicable, the "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from this Agreement. Such claim shall be delivered to the Committee care of the Company in accordance with the notice provisions of Section 11.6. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within two hundred and seventy (270) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

**9.2. Notification of Decision.** The Committee shall consider a Claimant's claim pursuant to Section 9.1 within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
  - (i) the specific reason(s) for the denial of the claim, or any part of it;
  - (ii) specific reference(s) to pertinent provisions of this Agreement upon which such denial was based;
  - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;

- (iv). a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (v) a statement of the Claimant's right to seek arbitration pursuant to Section 9.4.

**9.3. Pre and Post-Change in Control Procedures.** With respect to claims made prior to the occurrence of a Change in Control, a Claimant's compliance with the foregoing provisions of this Article 9 is a mandatory prerequisite to a Claimant's right to commence arbitration pursuant to Section 9.4 with respect to any claim for benefits under this Agreement. With respect to claims made upon and after the occurrence of a Change in Control, the Claimant may proceed directly to arbitration in accordance with Section 9.4 and need not first satisfy the foregoing provisions of this Article 9.

**9.4. Arbitration of Claims.** All claims or controversies arising out of or in connection with this Agreement, that the Company may have against any Claimant, or that any Claimant may have against the Company or against its officers, directors, employees or agents acting in their capacity as such, shall, subject to the initial review provided for in the foregoing provisions of this Article 9 that are effective with respect to claims brought prior to the occurrence of a Change in Control, be resolved through arbitration as provided in this Section 9.4. The decision of an arbitrator on any issue, dispute, claim or controversy submitted for arbitration, shall be final and binding upon the Company and the Claimant and that judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. The arbitrator shall review de novo any claim previously considered by the Committee pursuant to Section 9.1.

All expenses of such arbitration, including the fees and expenses of the counsel for the Executive, shall be advanced and borne by the Company; provided, however, that if it is finally determined that the Claimant did not commence the arbitration in good faith and had no reasonable basis therefore, the Claimant shall repay all advanced fees and expenses and shall reimburse the Company for its reasonable legal fees and expenses in connection therewith.

Except as otherwise provided in this procedure or by mutual agreement of the parties, any arbitration shall be administered: (1) in accordance with the then-current Model Employment Arbitration Procedures of the American Arbitration Association ("AAA") before an arbitrator who is licensed to practice law in the state in which the arbitration is convened; or (2) if locally available, the Judicial Arbitration & Mediation Services, Inc. ("JAMS"), in accordance with the JAMS procedures then in effect. The party who did not initiate the claim can designate between JAMS or AAA (the "Tribunal"). The arbitration shall be held in the city in which the Claimant is or was last employed by the Company in the nearest Tribunal office or at a mutually agreeable location. Pre-hearing and post-hearing procedures may be held by telephone or in person as the arbitrator deems necessary.

The arbitrator shall be selected as follows: if the parties cannot agree on an arbitrator, the Tribunal (JAMS or AAA) shall then provide the names of nine (9) available arbitrators experienced in business employment matters along with their resumes and fee schedules. Each party may strike all names on the list it deems unacceptable. If more than one common name remains on the list of all parties, the parties shall strike names alternately until only one remains. The party who did not initiate the claim shall strike first. If no common name remains on the lists of the parties, the Tribunal shall furnish an additional list or lists until an arbitrator is selected.

The arbitrator shall interpret this Agreement, any applicable Company policy or rules and regulations, any applicable substantive law (and the law of remedies, if applicable) of the state in which the claim arose, or applicable federal law. In reaching his or her decision, the arbitrator shall have no authority to change or modify any lawful Company policy, rule or regulation, or this Agreement. The arbitrator, and not any federal, state or local court or agency, shall have exclusive and broad authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement, including but not limited to, any claim that all or any part of this Agreement is voidable.

The arbitrator shall have authority to entertain a motion to dismiss and/or motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

Each party shall have the right to take the deposition of one individual and any expert witness(es) designated by another party. Each party shall also have the opportunity to obtain documents from another party through one request for production of documents. Additional discovery may be had only when the arbitrator so orders upon a showing of substantial need. Any disputes regarding depositions, requests for production of documents or other discovery shall be submitted to the arbitrator for determination.

Each party shall have the right to subpoena witnesses and documents for the arbitration hearing by requesting a subpoena from the arbitrator. Any such request shall be served on all other parties, who shall advise the arbitrator in writing of any objections that the party may have to issuance of the subpoena within ten (10) calendar days of receipt of the request.

At least thirty (30) calendar days before the arbitration, the parties must exchange lists of witnesses, including any expert(s), and copies of all exhibits intended to be used at the arbitration.

#### **Article 10. Successors and Assignment**

**10.1. Successors to the Company.** The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Company or of any division or subsidiary thereof (the business and/or assets of which constitute at least fifty percent (50%) of the total business and/or assets of the Company) to expressly assume and agree to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform them if such succession had not taken place. Failure of the Company to obtain such assumption and agreement in a written instrument prior to the effective date of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as they would be entitled to hereunder if they had terminated their employment with the Company voluntarily for Good Reason. Except for the purpose of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Executive's Effective Date of Termination if the Executive so elects, but any delay or failure by the Executive to so elect shall not be a waiver or release of any rights hereunder which may be asserted at any time.

**10.2. Assignment by the Executive.** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid to the Executive's Beneficiary in accordance with the terms of this Agreement. If the Executive has not named a Beneficiary, then such amounts shall be paid to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

#### **Article 11. Miscellaneous**

**11.1. Employment Status.** Except as may be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will," and, prior to the effective date of a Change in Control, may be terminated by either the Executive or the Company at any time, subject to applicable law.

**11.2. Beneficiaries.** The Executive may designate one or more persons or entities as the primary and/or contingent Beneficiaries of any Severance Benefits owing to the Executive under this Agreement. The Executive may make or change such designation at any time, provided that any designation or change thereto must be in the form of a signed writing acceptable to and received by the Committee.

**11.3. Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**11.4. Severability.** In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Agreement, and this Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. Further, the captions of this Agreement are not part of the provisions hereof and shall have no force and effect.

**11.5. Modification.** No provision of this Agreement may be modified, waived, or discharged unless as to the Executive such modification, waiver, or discharge is agreed to in writing and signed by each affected Executive and by an authorized member of the Committee or its designee, or by the respective parties' legal representatives and successors.

**11.6. Notice.** For purposes of this Agreement, notices, including a Notice of Termination, and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or on the date stamped as received by the U.S. Postal Service for delivery by certified or registered mail, postage prepaid and addressed: (i) if to the Executive, to his latest address as reflected on the records of the Company, and (ii) if to the Company: Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067, Attn: Chief Human Resources Officer, or to such other address as the Company may furnish to the Executive in writing with specific reference to this Agreement and the importance of the notice, except that notice of change of address shall be effective only upon receipt.

**11.7. Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the State of California shall be the controlling law in all matters relating to this Agreement. Any statutory reference in this Agreement shall also be deemed to refer to all applicable final rules and final regulations promulgated under or with respect to the referenced statutory provision.

**IN WITNESS WHEREOF**, the parties have executed this Agreement on this 16<sup>th</sup> day of October, 2003.

Northrop Grumman Corporation

Executive

By: J. Michael Hateley

Charles H. Noski

\_\_\_\_\_

\_\_\_\_\_

**EXHIBIT D**  
**RELEASE AGREEMENT**

**1. PARTIES:** The parties to this Release Agreement (referred to hereafter as "Agreement") are **MR. CHARLES H. NOSKI** (referred to hereafter as "Executive") and **NORTHROP GRUMMAN CORPORATION** (referred to hereafter as "Northrop Grumman" or the "Company").

**2. RECITALS:** This Agreement is made with reference to the following facts:

**2.1** Executive and Northrop Grumman are parties to an Employment Agreement, one of the terms of which provides Executive, under certain conditions, with Special Severance Benefits in exchange for a release.

**2.2** This Agreement is the release Executive is required to sign in order to receive those Special Severance Benefits.

**3. CONSIDERATION:** In exchange for the Executive's agreement to abide by all of the terms of this Agreement, Northrop Grumman will provide Executive with the Special Severance Benefits set forth in Section 14 of the Employment Agreement.

**4. COMPLETE RELEASE:** In consideration of the promises contained herein, and for other good and valuable consideration the receipt of which is hereby acknowledged, Executive does hereby acknowledge full and complete satisfaction of and does hereby agree to release, absolve and discharge Releasees (as defined below) from all claims, causes of action, demands, damages or costs he may have against Releasees on behalf of himself or others arising prior to the date he signs this Agreement. "Releasees" shall mean the Company, its subsidiaries, affiliated and related companies, past, present and future, and each of them, as well as its and their employees, officers, directors, and agents (in their capacities as employees, officers, directors and agents), past and present, and each of them in such capacities.

**4.1** This waiver and release includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under the Age Discrimination in Employment Act, which prohibits discrimination in employment based on age, and retaliation; Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination based on disability and retaliation; the California Fair Employment and Housing Act, which prohibits discrimination in employment based on race, color, religion, sex, sexual orientation, national origin, ancestry, physical disability, mental disability, medical condition, marital status or age, and retaliation; or any other federal, state or local laws or regulations prohibiting employment discrimination or retaliation whether such claim be based upon an action filed by Executive or by any governmental agency.

**4.2** This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under Executive's Employment Agreement, or in relation to the Company's employee handbook and personnel policies, or any oral or written representations or statements made by officers, directors, lawyers, employees or agents of the Company, past and present, and each of them, or under any state or federal law regulating wages, hours, compensation or employment, or any claim for retaliation, wrongful discharge, breach of contract, breach of the implied covenant of good faith and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

4.3 This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to any severance plan, program, or arrangement.

4.4 This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under the federal False Claims Act.

4.5 This release covers both claims that Executive knows about and those he may not know about. Executive hereby specifically waives and relinquishes all rights and benefits provided by Section 1542 of the Civil Code of the State of California, and does so understanding and acknowledging the significance of this specific waiver of Section 1542. Section 1542 of the Civil Code of the State of California states as follows:

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

4.6 Notwithstanding the provisions of Section 1542 and for the purpose of implementing a full and complete release, Executive expressly acknowledges that this Agreement is intended to include all claims which he does not know or suspect to exist in his favor at the time of his signature on the Agreement, and that this Agreement will extinguish any such claims

4.7 Notwithstanding anything to the contrary herein, this Agreement does not waive or release: (i) any rights or claims which Executive may have under the Age Discrimination in Employment Act or other laws which arise after the date he signs this Agreement, (ii) any rights or claims Executive may have under his Employment Agreement with the Company which survive termination of employment or termination of his Employment Agreement; (iii) any rights Executive may have for indemnification from the Company; (iv) any rights which Executive may have under the Company’s Directors and Officers liability insurance policy; (v) any rights Executive may have under stock option, RPSR, RSR or other stock incentive grants provided to him by the Company; (vi) any rights Executive may have as a shareholder of Northrop Grumman; and (vii) any rights Executive may have to vested benefits under any Company employee benefit plan, including, without limitation, any Company pension plan (including the Special Pension Benefit in Section 5.D of the Executive’s Employment Agreement).

**5. ARBITRATION:** Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a single arbitrator in the State of California (in the major city nearest Executive’s residence) in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect. The decision of the arbitrator will be final and binding upon the parties hereto. Judgment may be entered on the arbitrator’s award in any court having jurisdiction. The arbitrator may, but need not, award the prevailing party in any dispute (as determined by the arbitrator) its or his legal fees and expenses.

**6. PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT; ADVICE OF COUNSEL:** Executive agrees and understands that he has been given a period of twenty-one (21) calendar days from his receipt of this Agreement to review and consider this Agreement before signing it. Executive further understands that he may use as much of this review period as he wishes prior to signing; he can sign this Agreement at any time prior to the expiration of the twenty-one calendar day period. At the end of this period, this offer of Special Severance Benefits will be deemed automatically withdrawn if not earlier signed by Executive and delivered to the Company. Executive is advised and encouraged to consult with his own legal counsel prior to signing this Agreement.

**7. RIGHT TO REVOKE AGREEMENT:** Executive may revoke this Agreement within seven (7) calendar days of signing it. Revocation can be made by delivering a written notice of revocation to Chief Human Resources Officer, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, CA 90067. For this revocation to be effective, written notice must be received by the Chief Human



Resources Officer no later than 5:00 p.m. PST on the seventh calendar day after Executive signs this Agreement. If Executive revokes this Agreement, it shall not be effective or enforceable, and Executive will not receive the benefits described in Section 3 of this Agreement.

**8. NON-ADMISSION OF LIABILITY:** Nothing contained herein shall be construed as an admission by either Executive or by Northrop Grumman of liability of any kind.

**9. SEVERABILITY:** The provisions of this Agreement are severable, and if any part of it is found to be illegal or invalid and thereby unenforceable, the validity of the remaining parts, terms or provisions shall not be affected and shall remain fully enforceable. The unenforceable part, term or provision shall be deemed not to be a part of this Agreement.

**10. SOLE AND ENTIRE AGREEMENT:** Except as otherwise expressly set forth herein, this Agreement sets forth the entire agreement between the parties hereto, and fully supersedes any and all discussions, prior agreements or understandings between the parties hereto pertaining to the subject matter of this Agreement.

**11. GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the laws of the State of California without regard to rules regarding conflicts of law.

EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND TO CAREFULLY CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT, UNDERSTANDS IT, AND IS VOLUNTARILY ENTERING INTO IT.

PLEASE READ THIS AGREEMENT CAREFULLY. IT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

**EXECUTIVE**

DATED: \_\_\_\_\_

BY: \_\_\_\_\_

**CHARLES H. NOSKI**

**NORTHROP GRUMMAN CORPORATION**

DATED: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

November 5, 2003

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, California 90067

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended September 30, 2003 and 2002, as indicated in our report dated October 29, 2003; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-61936, 333-67266, 333-100179, 333-100180, 333-103429, and 333-107734 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290, 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800, and 333-83672 on Form S-4.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

*/s/ DELOITTE & TOUCHE LLP*  
Los Angeles, California

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES****CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS APPROVED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald D. Sugar, Chief Executive Officer and President, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northrop Grumman Corporation (“registrant”);
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 registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) 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)) for the registrant 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 registrant, 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) Evaluated the effectiveness of the registrant’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
  - (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’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 registrant’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 registrant’s internal control over financial reporting.

Date: November 6, 2003

By: /s/ RONALD D. SUGAR

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Ronald D. Sugar  
Chairman, Chief Executive Officer and President

**NORTHROP GRUMMAN CORPORATION AND SUBSIDIARIES****CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS APPROVED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard B. Waugh, Jr., Corporate Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northrop Grumman Corporation (“registrant”);
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 registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) 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)) for the registrant and we 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant’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
  - (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’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 registrant’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 registrant’s internal control over financial reporting.

Date: November 6, 2003

By: /s/ RICHARD B. WAUGH, JR.

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Richard B. Waugh, Jr.  
Corporate Vice President and Chief Financial Officer



