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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

or

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

Commission File Number 1-16411

NORTHROP GRUMMAN CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**95-4840775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1840 Century Park East, Los Angeles, California 90067
www.northropgrumman.com
(Address of principal executive offices and internet site)

(310) 553-6262
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of April 20, 2007, 345,110,288 shares of common stock were outstanding.

NORTHROP GRUMMAN CORPORATION

Table of Contents

		Page
	PART I—FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Condensed Statements of Financial Position	I-1
	Consolidated Condensed Statements of Income	I-3
	Consolidated Condensed Statements of Comprehensive Income	I-4
	Consolidated Condensed Statements of Cash Flows	I-5
	Consolidated Condensed Statements of Changes in Shareholders' Equity	I-7
	Notes to Consolidated Condensed Financial Statements	
	1. Basis of Presentation	I-8
	2. New Accounting Standards	I-8
	3. Common Stock Dividend	I-9
	4. Business Acquisitions	I-9
	5. Business Dispositions	I-9
	6. Segment Information	I-9
	7. Earnings Per Share	I-11
	8. Goodwill and Other Purchased Intangible Assets	I-13
	9. Litigation	I-14
	10. Commitments and Contingencies	I-15
	11. Retirement Benefits	I-18
	12. Stock-Based Compensation	I-19
	13. Implementation of FIN 48	I-21
	14. Accumulated Other Comprehensive Loss	I-21
	Report of Independent Registered Public Accounting Firm	I-22
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Overview	I-23
	Critical Accounting Policies, Estimates, and Judgments	I-23
	Consolidated Operating Results	I-24
	Segment Operating Results	I-26
	Backlog	I-33
	Liquidity and Capital Resources	I-34
	New Accounting Standards	I-35
	Forward-Looking Information	I-35
	Glossary of Programs	I-36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	I-38
Item 4.	Controls and Procedures	I-39
	PART II—OTHER INFORMATION	
Item 1.	Legal Proceedings	II-1
Item 1A.	Risk Factors	II-2
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	II-2
Item 3	Defaults Upon Senior Securities	II-3
Item 4.	Submission of Matters to a Vote of Security Holders	II-3
Item 5.	Other Information	II-3
Item 6.	Exhibits	II-3
	Signatures	II-5

EXHIBIT 10.2(I)
EXHIBIT 10.2(II)
EXHIBIT 10.2(III)
EXHIBIT 10.3
EXHIBIT 10.5
EXHIBIT 15
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1
EXHIBIT 32.2

Table of Contents

NORTHROP GRUMMAN CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

$ in millions	**March 31, 2007**	December 31, 2006
Assets:		
Cash and cash equivalents	**$ 362**	$ 1,015
Accounts receivable, net of progress payments of $35,395 in 2007 and $34,085 in 2006	**3,749**	3,566
Inventoried costs, net of progress payments of $1,305 in 2007 and $1,226 in 2006	**1,195**	1,178
Deferred income taxes	**668**	706
Prepaid expenses and other current assets	**235**	254
Total current assets	**6,209**	6,719
Property, plant, and equipment, net of accumulated depreciation of $3,126 in 2007 and $3,015 in 2006	**4,544**	4,531
Goodwill	**17,671**	17,219
Other purchased intangibles, net of accumulated amortization of $1,588 in 2007 and $1,555 in 2006	**1,172**	1,139
Pension and postretirement benefits asset	**1,351**	1,349
Other assets	**1,098**	1,052
Total assets	**$32,045**	$32,009

Table of Contents

NORTHROP GRUMMAN CORPORATION

$ in millions	**March 31, 2007**	December 31, 2006
Liabilities:		
Notes payable to banks	**$ 325**	$ 95
Current portion of long-term debt	**75**	75
Trade accounts payable	**1,446**	1,686
Accrued employees' compensation	**1,143**	1,177
Advance payments and billings in excess of costs incurred	**1,561**	1,571
Income taxes payable	**242**	535
Other current liabilities	**1,746**	1,614
Total current liabilities	**6,538**	6,753
Long-term debt, net of current portion	**3,992**	3,992
Mandatorily redeemable preferred stock	**350**	350
Accrued retiree benefits	**3,345**	3,302
Other long-term liabilities	**1,476**	997
Total liabilities	**15,701**	15,394
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
Common stock, 800,000,000 shares authorized; issued and outstanding: 2007—342,830,880; 2006—345,921,809	**343**	346
Paid-in capital	**10,923**	11,346
Retained earnings	**6,374**	6,183
Accumulated other comprehensive loss	**(1,296)**	(1,260)
Total shareholders' equity	**16,344**	16,615
Total liabilities and shareholders' equity	**$32,045**	$32,009

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

Table of Contents

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31	
$ in millions, except per share	**2007**	2006
Sales and Service Revenues		
Product sales	**$4,165**	$4,397
Service revenues	**3,179**	2,696
Total sales and service revenues	**7,344**	7,093
Cost of Sales and Service Revenues		
Cost of product sales	**3,195**	3,423
Cost of service revenues	**2,753**	2,389
General and administrative expenses	**715**	677
Operating margin	**681**	604
Other Income (Expense)		
Interest income	**7**	13
Interest expense	**(89)**	(90)
Other, net	**(9)**	(1)
Income from continuing operations before income taxes	**590**	526
Federal and foreign income taxes	**203**	164
Income from continuing operations	**387**	362
Loss from discontinued operations, net of tax		(4)
Net income	**$ 387**	$ 358
Basic Earnings (Loss) Per Share		
Continuing operations	**$ 1.12**	$ 1.05
Discontinued operations		(.01)
Basic earnings per share	**$ 1.12**	$ 1.04
Weighted average common shares outstanding, in millions	**345.3**	343.3
Diluted Earnings (Loss) Per Share		
Continuing operations	**$ 1.10**	$ 1.03
Discontinued operations		(.01)
Diluted earnings per share	**$ 1.10**	$ 1.02
Weighted average diluted shares outstanding, in millions	**358.3**	350.8

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

Table of Contents

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31	
$ in millions	**2007**	2006
Net income	**$387**	$358
Other Comprehensive Income		
Change in cumulative translation adjustment	**2**	3
Change in unrealized gain on marketable securities, net of tax benefit of $2 for the three months ended March 31, 2006		(1)
Amortization of unamortized benefit plan costs, net of tax benefit of $4	**8**	
Other comprehensive income, net of tax	**10**	2
Comprehensive income	**$397**	$360

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

$ in millions	Three Months Ended March 31 **2007**	2006
Operating Activities		
Sources of Cash – Continuing Operations		
Cash received from customers		
Progress payments	**$ 1,535**	$ 1,511
Collections on billings	**5,780**	5,122
Income tax refunds received	**1**	8
Interest received	**7**	15
Other cash receipts	**15**	36
Total sources of cash – continuing operations	**7,338**	6,692
Uses of Cash—Continuing Operations		
Cash paid to suppliers and employees	**(6,728)**	(6,468)
Interest paid	**(127)**	(130)
Income taxes paid	**(22)**	(68)
Excess tax benefits from stock-based compensation	**(52)**	(39)
Other cash payments	**(9)**	(20)
Total uses of cash – continuing operations	**(6,938)**	(6,725)
Cash provided by (used in) continuing operations	**400**	(33)
Cash used in discontinued operations		(82)
Net cash provided by (used in) operating activities	**400**	(115)
Investing Activities		
Proceeds from sale of businesses, net of cash divested		26
Payment for businesses purchased, net of cash acquired	**(578)**	
Proceeds from sale of property, plant, and equipment		6
Additions to property, plant, and equipment	**(158)**	(173)
Payments for outsourcing contract and related software costs	**(30)**	
Proceeds from insurance carrier	**3**	37
Payment for purchase of investment		(35)
Decrease in restricted cash	**15**	
Other investing activities, net	**1**	(4)
Net cash used in investing activities	**(747)**	(143)
Financing Activities		
Net borrowings under lines of credit	**230**	16
Principal payments of long-term debt	**(23)**	(436)
Proceeds from exercises of stock options and issuance of common stock	**156**	286
Dividends paid	**(121)**	(92)
Excess tax benefits from stock-based compensation	**52**	39
Common stock repurchases	**(600)**	(787)
Net cash used in financing activities	**(306)**	(974)
Decrease in cash and cash equivalents	**(653)**	(1,232)
Cash and cash equivalents, beginning of period	**1,015**	1,605
Cash and cash equivalents, end of period	**$ 362**	$ 373

NORTHROP GRUMMAN CORPORATION

$ in millions	Three Months Ended March 31 2007	2006
Reconciliation of Net Income to Net Cash Provided by (Used In) Operating Activities		
Net Income	**$ 387**	$ 358
Adjustments to reconcile to net cash provided by (used in) operating activities		
Depreciation	**135**	135
Amortization of assets	**34**	42
Stock-based compensation	**38**	51
Excess tax benefits from stock-based compensation	**(52)**	(39)
Amortization of long-term debt premium	**(3)**	(4)
Decrease (increase) in		
Accounts receivable	**(1,430)**	(1,499)
Inventoried costs	**(96)**	(169)
Prepaid expenses and other current assets	**17**	42
Increase (decrease) in		
Progress payments	**1,390**	1,036
Accounts payable and accruals	**(276)**	(221)
Deferred income taxes	**(4)**	27
Income taxes payable	**177**	74
Retiree benefits	**47**	119
Other non-cash transactions, net	**36**	15
Cash provided by (used in) continuing operations	**400**	(33)
Cash used in discontinued operations		(82)
Net cash provided by (used in) operating activities	**$ 400**	$ (115)
Non-Cash Investing and Financing Activities		
Sale of businesses		
Liabilities assumed by purchaser		$ 11
Purchase of business		
Fair value of assets acquired, including goodwill	**$ 682**	
Consideration given for businesses purchased	**(578)**	
Liabilities assumed	**$ 104**	
Property, plant, and equipment	**$ 21**	

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

NORTHROP GRUMMAN CORPORATION

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

	Three Months Ended March 31	
$ in millions, except per share	**2007**	2006
Common Stock		
At beginning of period	**$ 346**	$ 347
Common stock repurchased	**(8)**	(12)
Employee stock awards and options	**5**	8
At end of period	**343**	343
Paid-in Capital		
At beginning of period	**11,346**	11,571
Common stock repurchased	**(592)**	(775)
Employee stock awards and options	**169**	305
At end of period	**10,923**	11,101
Retained Earnings		
At beginning of period	**6,183**	5,055
Net income	**387**	358
Adjustment to initially apply FIN 48	**(66)**	
Dividends	**(130)**	(95)
At end of period	**6,374**	5,318
Accumulated Other Comprehensive Loss		
At beginning of period	**(1,260)**	(145)
Adjustment to deferred tax benefit recorded on adoption of SFAS 158	**(46)**	
Other comprehensive income	**10**	2
At end of period	**(1,296)**	(143)
Total shareholders' equity	**$16,344**	$16,619
Cash dividends per share	**$ .37**	$ .26

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

NORTHROP GRUMMAN CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

Principles of Consolidation – 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 consolidated financial position, results of operations, 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 contained in the company's 2006 Annual Report on Form 10-K.

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

Accounting Estimates – The company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

Financial Statement Reclassifications – Certain amounts in the prior period financial statements and related notes have been reclassified to conform to the 2007 presentation, primarily due to the shutdown of the Enterprise Information Technology (EIT) business (Note 5) and business operation realignments (Note 6).

2. NEW ACCOUNTING STANDARDS

The disclosure requirements and cumulative effect of adoption of the Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* are presented in Note 13.

Other new pronouncements issued but not effective until after March 31, 2007 are not expected to have a significant effect on the company's consolidated financial position or results of operations, with the possible exception of the following, which are currently being evaluated by management:

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159 – *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the effect that adoption of this statement will have on the company's consolidated financial position and results of operations when it becomes effective in 2008.

In September 2006, the FASB issued SFAS No. 157 – *Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the company beginning

January 1, 2008, and the provisions of SFAS No. 157 will be applied prospectively as of that date. Management is currently evaluating the effect that adoption of this statement will have on the company's consolidated financial position and results of operations.

3. COMMON STOCK DIVIDEND

Common Stock Dividend – On February 21, 2007, the company's board of directors approved a 23 percent increase to the quarterly common stock dividend, from $.30 per share to $.37 per share, effective with the first quarter 2007 dividend.

4. BUSINESS ACQUISITIONS

Essex – On January 25, 2007, the company acquired Essex Corporation (Essex) for approximately $600 million, including the assumption of debt totaling $23 million and estimated transaction costs of $14 million. Essex provides signal processing services and products, and advanced optoelectronic imaging for U.S. government intelligence and defense customers. The operating results of Essex are included as part of the Mission Systems segment. The assets, liabilities, and results of operations of Essex were not material and thus pro-forma information is not presented. The financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for Essex. During the quarter, approximately $66 million of the purchase price was allocated to purchased intangibles (Note 8). The company is currently reviewing preliminary fair value adjustments associated with purchased intangibles. The ultimate allocation of the purchase price may differ from the amounts included in these financial statements. Adjustments to the purchase price allocations, if any, are expected to be finalized by the first quarter of 2008, and will be reflected in future filings. Management does not expect these adjustments, if any, to have a material effect on the company's financial position or results of operations.

5. BUSINESS DISPOSITIONS

Interconnect – On February 24, 2006, the company sold the assembly business of Interconnect Technologies (Interconnect) for net cash proceeds of $26 million and recognized an after-tax gain of $4 million in discontinued operations.

Enterprise Information Technology – In the first quarter of 2006, management announced its decision to exit the EIT business reported within the Information Technology segment. The shutdown of this business was completed during the second quarter of 2006 and costs associated with the exit activities were not material. The results of operations of this business are reported as discontinued operations in the consolidated condensed statements of income, net of applicable income taxes.

6. SEGMENT INFORMATION

Effective January 1, 2007, the company realigned businesses among its operating segments that possess similar customers, expertise, and capabilities. The realignment more fully leverages existing capabilities and enhances development and delivery of highly integrated services. The realignment primarily involved the Radio Systems business being transferred from the Space Technology segment to the Mission Systems segment and the UK AWACS program being transferred from the Information Technology segment to the Technical Services segment. On July 1, 2006, certain logistics, services and technical support programs from Electronics, Integrated Systems, Mission Systems, and Space Technology were transferred to Technical Services. The sales and segment operating

margin in the following tables have been revised, where applicable, to reflect these realignments for all periods presented.

The following table presents segment sales and service revenues for the three months ended March 31, 2007, and 2006.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Sales and Service Revenues		
Information & Services		
Mission Systems	**$1,362**	$1,340
Information Technology	**1,038**	929
Technical Services	**520**	383
Total Information & Services	**2,920**	2,652
Aerospace		
Integrated Systems	**1,281**	1,416
Space Technology	**754**	733
Total Aerospace	**2,035**	2,149
Electronics	**1,591**	1,504
Ships	**1,156**	1,133
Intersegment eliminations	**(358)**	(345)
Total sales and service revenues	**$7,344**	$7,093

NORTHROP GRUMMAN CORPORATION

The following table presents segment operating margin reconciled to total operating margin for the three months ended March 31, 2007, and 2006.

$ in millions	Three Months Ended March 31 2007	2006
Operating Margin		
Information & Services		
Mission Systems	**$119**	$125
Information Technology	**86**	80
Technical Services	**28**	24
Total Information & Services	**233**	229
Aerospace		
Integrated Systems	**160**	148
Space Technology	**59**	58
Total Aerospace	**219**	206
Electronics	**181**	176
Ships	**79**	68
Intersegment eliminations	**(29)**	(26)
Total segment operating margin	**683**	653
Non-segment factors affecting operating margin		
Unallocated expenses	**(32)**	(35)
Net pension adjustment	**33**	(10)
Reversal of royalty income included above	**(3)**	(4)
Total operating margin	**$681**	$604

Unallocated Expenses – This reconciling item includes the portion of corporate expenses such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses not considered allowable or allocable under applicable United States (U.S.) Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments.

Net Pension Adjustment – Net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended March 31, 2007, and 2006, pension expense determined in accordance with GAAP was $87 million and $112 million, respectively, offset by pension expense determined in accordance with CAS of $120 million and $102 million, respectively.

Reversal of Royalty Income – Royalty income is included in segment operating margin for internal reporting purposes. This amount is reversed in the table above to arrive at the operating margin as determined in accordance with GAAP as royalty income is included in the "Other, net" line item in the Consolidated Condensed Statements of Income.

7. EARNINGS PER SHARE

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

Diluted Earnings Per Share – Diluted earnings per share include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and the company's mandatorily redeemable convertible series B preferred stock. The dilutive effect of these potential common stock instruments totaled

13 million shares (including 6.4 million shares for the preferred stock) and 7.5 million shares for the three months ended March 31, 2007 and 2006, respectively. The related dividends on the preferred shares are added back to the numerator to arrive at income available to common shareholders from continuing operations. The dividends and shares related to the preferred stock were not included in the diluted per share calculations for the three months ended March 31, 2006, because their effect was not dilutive to earnings per share. The weighted-average diluted shares outstanding for the three months ended March 31, 2007 and 2006, exclude stock options to purchase approximately 74,000 and 700,000 shares, respectively, since such options have an exercise price in excess of the average market price of the company's common stock during the period.

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

	Three Months Ended March 31	
$ in millions, except per share	**2007**	2006
Diluted Earnings per Share		
Income from continuing operations	**$ 387**	$ 362
Add dividends on mandatorily redeemable convertible preferred stock	**6**	
Income available to common shareholders from continuing operations	**$ 393**	$ 362
Weighted-average common shares outstanding	**345.3**	343.3
Dilutive effect of stock options, awards and mandatorily redeemable convertible preferred stock	**13.0**	7.5
Weighted-average diluted shares outstanding	**358.3**	350.8
Diluted earnings per share from continuing operations	**$ 1.10**	$ 1.03

Share Repurchases – On December 14, 2006, the company's board of directors authorized a share repurchase program of up to $1 billion of its outstanding common stock. This new authorization is in addition to $176 million remaining on the company's previous share repurchase authorization which commenced in November 2005. As of March 31, 2007, the company has $576 million authorized for share repurchases.

Since November 2005 the company has entered into three separate accelerated share repurchase agreements with Credit Suisse, New York Branch (Credit Suisse) to repurchase shares of common stock. Credit Suisse in each case immediately borrowed shares that were sold to and canceled by the company. Subsequently, Credit Suisse purchases shares in the open market to settle its share borrowings. The cost of the company's share repurchases are subject to adjustment based on the actual cost of the shares subsequently purchased by Credit Suisse. If additional cost is owed by the company upon settlement, the price adjustment can be settled, at the company's option, in cash or in shares of common stock.

The table below summarizes the accelerated share repurchase transactions:

Agreement Date	Shares Repurchased (in millions)	Purchase Price Per Share	Completion Date	Final Price Adjustment (in millions)	Final Average Purchase Price Per Share
November 4, 2005	9.1	$55.15	March 1, 2006	$37	$59.05
March 6, 2006	11.6	64.78	May 26, 2006	37	68.01
February 21, 2007	8.0	75.29			

As of March 31, 2007, Credit Suisse had purchased 3.6 million shares, or 45 percent of the shares, under the latest agreement, at an average price per share of $72.91, net of commissions and other items. Assuming Credit Suisse purchases the remaining shares at a price per share equal to the closing price of the company's common stock on March 30, 2007 ($74.22), Credit Suisse would be required to reimburse approximately $13.2 million to the company to complete the transaction. The settlement amount may increase or decrease depending upon the

average price paid for the shares under the program. Settlement is expected to occur in the second quarter of 2007, depending upon the timing and pace of the purchases, and would result in an adjustment to shareholders' equity.

With the exception of the accelerated share repurchase agreements with Credit Suisse noted above, share repurchases take place at management's discretion and under pre-established, non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

8. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the three months ended March 31, 2007, were as follows:

$ in millions	Balance as of December 31, 2006	Goodwill Transferred in Segment Realignment	Goodwill Acquired	Adjustment to initially apply FIN 48	**Balance as of March 31, 2007**
Mission Systems	$ 3,883	$ 346	$515	$(22)	**$ 4,722**
Information Technology	2,219			(7)	**2,212**
Technical Services	787	34		(3)	**818**
Integrated Systems	976				**976**
Space Technology	3,254	(380)		(18)	**2,856**
Electronics	2,516			(1)	**2,515**
Ships	3,584			(12)	**3,572**
Total	$17,219	$ —	$515	$(63)	**$17,671**

Purchased Intangible Assets

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

	March 31, 2007			December 31, 2006		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$2,660**	**$(1,519)**	**$1,141**	$2,594	$(1,487)	$1,107
Other purchased intangibles	**100**	**(69)**	**31**	100	(68)	32
Total	**$2,760**	**$(1,588)**	**$1,172**	$2,694	$(1,555)	$1,139

During the quarter ended March 31, 2007, approximately $66 million of the Essex purchase price was allocated to purchased intangible assets with a weighted average life of 6 years.

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years. Aggregate amortization expense for the three months ended March 31, 2007, was $33 million.

The table below shows expected amortization for purchased intangibles for the remainder of 2007 and for the next five years:

$ in millions	
Year Ended December 31	
2007 (April 1 – December 31)	$ 99
2008	122
2009	112
2010	92
2011	53
2012	52

9. LITIGATION

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

As previously disclosed, in October 2005, the U.S. Department of Justice and a classified U.S. Government customer apprised the company of potential substantial claims relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a component of the company. The relationship, if any, between the potential claims and a civil False Claims Act case that remains under seal in the U.S. District Court for the Central District of California remains unclear to the company. In the third quarter of 2006, the parties commenced settlement discussions. While the company continues to believe that it did not breach the contracts in question and that it acted appropriately in this matter, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of $112.5 million in the third quarter of 2006 to cover the cost of the settlement proposal and associated investigative costs. The charge has been recorded within “General and administrative expenses” in the consolidated statements of income. The company extended the offer in an effort to avoid litigation and in recognition of the value of the relationship with this customer. The U.S. Government has advised the company that if settlement is not reached it will pursue its claims through litigation. Because of the highly technical nature of the issues involved and their classified status and because of the significant disagreement between the company and the U.S. Government as to the U.S. Government’s theories of liability and damages (including a material difference between the U.S. Government’s damage theories and the company’s offer), final resolution of this matter could take a considerable amount of time, particularly if litigation should ensue. If the U.S. Government were to pursue litigation and were to be ultimately successful on its theories of liability and damages, which could be trebled under the Federal False Claims Act, the effect upon the company’s consolidated financial position, results of operations, and cash flows would materially exceed the amount provided by the company. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail. Accordingly, the ultimate disposition of this matter cannot presently be determined.

Based upon the available information regarding matters that are subject to U.S. Government investigations, other than as set out above, the company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Litigation – Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution

of any of these various claims and legal proceedings will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As previously disclosed, the company is a defendant in litigation brought by Cogent Systems, Inc. (Cogent) in Los Angeles Superior Court in California on April 20, 2005, for unspecified damages for alleged unauthorized use of Cogent technology relating to fingerprint recognition. Cogent has asserted entitlement to damages totaling in excess of $160 million, loss of goodwill and enterprise value in an amount not yet specified by the plaintiff, and other amounts, including, without limitation, exemplary damages and attorneys' fees and interest. The trial date has been set for May 22, 2007, with a mediation scheduled for May 3, 2007. The company believes, but can give no assurance, that the outcome of this matter would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

On March 27, 2007, the U.S. District Court, Central District of California, consolidated two separately filed ERISA class actions (Grabek v. Northrop Grumman Corporation, et al., previously styled Waldbuesser v. Northrop Grumman Corporation, et al., and Heidecker v. Northrop Grumman Corporation, et al.) into the In Re Northrop Grumman Corporation ERISA Litigation for discovery and other purposes, as each allege similar issues of law and fact. As previously reported, plaintiffs in Grabek allege breaches of fiduciary duty by the company, certain of its administrative and Board committees, all members of the company's Board of Directors, and certain company officers and employees with respect to alleged excessive, hidden and/or otherwise improper fee and expense charges to the Northrop Grumman Savings Plan and the Northrop Grumman Financial Security and Savings Plan (both of which are 401(k) plans). Heidecker asserts similar claims, but has dismissed the company's Board of Directors. Each lawsuit seeks unspecified damages, removal of individuals acting as fiduciaries to such plans, payment of attorney fees and costs, and an accounting. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Insurance Recovery – Property damage from Hurricane Katrina is covered by the company's comprehensive property insurance program. The insurance provider for coverage of property damage losses over $500 million has advised management of a disagreement regarding coverage for certain losses above $500 million. As a result, the company has taken legal action against the insurance provider as the company believes that its insurance policies are enforceable and intends to pursue all of its available rights and remedies. However, based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

10. COMMITMENTS AND CONTINGENCIES

Accelerated Share Repurchase – On February 21, 2007, the company entered into an accelerated share repurchase agreement with Credit Suisse. Settlement is expected to occur in the second quarter of 2007, depending upon the timing and pace of open market purchases by Credit Suisse, and would result in an adjustment to shareholders' equity. The settlement amount depends upon the average price paid for the shares under the program (Note 7).

Contract Performance Contingencies – Contract profit margins may include estimates of costs not contractually agreed to between the customer and the company for matters such as contract changes, negotiated settlements, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of March 31, 2007, the amounts recorded are not material individually or in the aggregate.

In April 2007, the company was notified by the prime contractor on the Wedgetail contract that it anticipates that the prime contractor's delivery dates will be late and this could subject the prime contractor to liquidated damages from the customer. Should liquidated damages be assessed, the company would share in a proportionate

amount of those damages to a maximum of approximately $40 million. Until such time as liquidated damages are assessed by the customer, it is not possible to determine the operating margin impact, if any, that such charges would have to the company.

Environmental Matters – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of March 31, 2007, the range of reasonably possible future costs for environmental remediation sites was $228 million to $322 million, of which $253 million is accrued in other current liabilities. Factors that could result in changes to the company's estimates include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position, results of operations, or cash flows.

Income Tax Matters – The company has exposure related to income tax filings in the ordinary course of business, including matters related to pre-acquisition periods of acquired businesses or indemnifications of businesses divested. The company periodically assesses these exposures for all tax years that are open under the applicable statute of limitations and records a liability, including related interest charges, where it has determined that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities under indemnification agreements for businesses divested are recorded at fair value at the inception of the indemnification and presented within income taxes payable. These primarily relate to indemnifications of foreign taxes as a result of the divestiture of TRW Auto in 2003 and total approximately $140 million at March 31, 2007, and December 31, 2006. Management does not believe that the resolution of any of these income tax exposures will have a material adverse effect on the company's consolidated financial position or results of operations.

Co-Operative Agreements – In 2003, Ships executed agreements with the states of Mississippi and Louisiana whereby Ships leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ships to these states.

As of March 31, 2007, Ships has met its obligations under the Mississippi agreement and remains obligated under the Louisiana agreement to maintain a minimum average of 5,200 full-time employees at the end of any four-year period occurring between January 1, 2003, and December 31, 2010.

Failure by Ships to meet the Louisiana commitment would result in reimbursement by Ships to Louisiana in accordance with the agreement. As of March 31, 2007, Ships expects that all future commitments under the Louisiana agreement will be met based on its most recent business plan.

Impact from Hurricane Katrina – As of March 31, 2007, management estimates that the costs to clean-up and restore its operations will total approximately $850 million, which includes $590 million to repair or replace assets damaged by the storm. As of March 31, 2007, the company has received $353 million in insurance proceeds. Through March 31, 2007, the company has expended $416 million in cash to clean-up and restore its facilities, including $209 million in capital expenditures. During the three months ended March 31, 2007, and 2006, the company incurred clean-up and restoration costs of $6 million and $17 million and capital

expenditures of $17 million and $54 million, respectively. As of March 31, 2007, the company has written off $98 million in assets that were completely destroyed by the storm, all of which were written off during 2005 and 2006.

The company has submitted estimated expenditures for recovery to its insurance carriers that are substantially in excess of the insurance proceeds received to date, and is awaiting resolution of its submissions. The company is continuing to assess its damage estimates as the process of repairing its operations is performed. The company estimates this process will continue through 2008.

Management believes that substantially all of the estimated cost will be recovered through the company's comprehensive property damage insurance. However, the matter of insurance recovery is being litigated as discussed in Note 9. The company believes that its insurance policies are enforceable and intends to pursue all of its available rights and remedies. However, based on the current status of the litigation between the company and its insurance provider, no assurances can be made as to the ultimate outcome of this matter.

The company's comprehensive property insurance includes coverage for business interruption effects caused by the storm, however, the company is unable to currently estimate the amount of any recovery or the period in which its claims related to business interruption will be resolved. Accordingly, no such amounts have been recognized by the company in the accompanying consolidated condensed financial statements. To the extent that its insurance recoveries are inadequate to fund the repair and restoration costs that the company deems necessary, the company will pursue other means for funding the shortfall, including funding from its current operations.

In accordance with cost accounting regulations relating to U.S. Government contractors, recovery of property damages in excess of the net book value of the damaged assets as well as losses on property damage that are not recovered through insurance are required to be included in the company's overhead pools and allocated to current contracts under a systematic process. The company is currently in discussions with its government customers regarding the allocation methodology to be used to account for these differences. Depending upon the outcome of these discussions and the ultimate resolution of the company's damage claims with its insurance providers, the company may be required to recognize additional cost growth on its contracts and cumulative downward adjustment to its contract profit rates at a future date.

Due to the complexity of the regulatory issues relating to the treatment of insurance recoveries on government contracts, the overall magnitude of the company's insurance claims, the extended period of time that has ensued in the discussions with the company's government customers, and the uncertainties surrounding the resolution of the damage claims with our insurance provider, the company is not able to estimate the effects of any potential incremental costs that could result in further reduction of margin on contracts in process or the ultimate resolution of the insurance litigation at this time.

Financial Arrangements – In the ordinary course of business, the company utilizes standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At March 31, 2007, there were $419 million of unused stand-by letters of credit, $140 million of bank guarantees, and $615 million of surety bonds outstanding.

In December 2006, Ships entered into a loan agreement with the Mississippi Business Finance Corporation (MBFC) under which Ships received access to $200 million from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds by the MBFC. The loan accrues interest payable semi-annually at a fixed rate of 4.55 percent per annum. The bonds are subject to redemption at the company's discretion on or after December 1, 2016, and mature on December 1, 2028. The bond issuance proceeds must be used to finance the construction, reconstruction, and renovation of the company's interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi. As of March 31, 2007, approximately $90 million was used by Ships and the remaining $110 million was recorded in miscellaneous other assets as

restricted cash in the consolidated statement of financial position. Repayment of the bonds is guaranteed by the company.

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

In May 2006, Goodrich Corporation (Goodrich) notified the company of its claims under indemnities assumed by the company in its December 2002 acquisition of TRW that related to the sale by TRW of its Aeronautical Systems business in October 2002. Goodrich seeks relief from increased costs and other damages of approximately $118 million. The parties are engaged in discussions to enable the company to evaluate the merits of the claims as well as to assess the amounts being claimed. If the parties are unable to reach a negotiated resolution of the claims, Goodrich will have the right to commence litigation and may seek significant additional damages relating to allegations of other incurred costs and lost profits. The ultimate disposition of any litigation could take an extended period of time due to the nature of the claims. The company does not have sufficient information to assess the probable outcome of the disposition of this matter. If Goodrich were to pursue litigation and ultimately be successful on its claims, the effect upon the company's consolidated financial position, results of operations, and cash flows could be material.

U.S. Government Claims – During the second quarter of 2006, the U.S. Government advised the company of claims and penalties concerning certain potential disallowed costs. The parties are engaged in discussions to enable the company to evaluate the merits of these claims as well as to assess the amounts being claimed. The company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Related Party Transactions – The company had no material related party transactions for any period presented.

11. RETIREMENT BENEFITS

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

	Three Months Ended March 31			
	Pension Benefits		Medical and Life Benefits	
$ in millions	**2007**	2006	**2007**	2006
Components of Net Periodic Benefit Cost				
Service cost	**$ 196**	$ 185	**$ 13**	$ 18
Interest cost	**312**	291	**41**	47
Expected return on plan assets	**(443)**	(393)	**(15)**	(13)
Amortization of:				
Prior service costs	**10**	9	**(16)**	(2)
Net loss from previous years	**12**	20	**6**	8
Net periodic benefit cost	**$ 87**	$ 112	**$ 29**	$ 58
Defined contribution plans cost	**$ 82**	$ 67		

Employer Contributions – The company expects to contribute approximately $155 million to its pension plans and approximately $217 million to its medical and life benefit plans in 2007. As of March 31, 2007, contributions of $33 million and $31 million have been made to the company's pension plans and its medical and life benefit plans, respectively.

NORTHROP GRUMMAN CORPORATION

12. STOCK-BASED COMPENSATION

At March 31, 2007, the company had stock-based awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan, the 1993 Long-Term Incentive Stock Plan, both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors and the 1995 Stock Option Plan for Non-Employee Directors. All of these plans were approved by the company's shareholders. Share-based awards under the employee plans consist of stock option awards (Stock Options) and restricted stock awards (Stock Awards).

Compensation Expense – Total pre-tax stock-based compensation for the three months ended March 31, 2007, and 2006, was $38 million and $48 million, respectively, of which $4 million and $3 million related to Stock Options and $34 million and $45 million related to Stock Awards, respectively. Tax benefits recognized in the consolidated condensed statements of income for stock-based compensation during the three months ended March 31, 2007, and 2006, were $15 million and $17 million, respectively. In addition, the company realized excess tax benefits of $30 million and $34 million from the exercise of Stock Options and $22 million and $5 million from the vesting of Stock Awards in the three months ended March 31, 2007, and 2006, respectively.

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

The significant weighted average assumptions relating to the valuation of the company's Stock Options for the three months ended March 31, 2007, and 2006, were as follows:

	2007	2006
Dividend yield	**2.1%**	1.6%
Volatility rate	**20%**	25%
Risk-free interest rate	**4.6%**	4.6%
Expected option life (years)	**6.0**	6.0

The weighted average grant date fair value of Stock Options granted during the three months ended March 31, 2007, and 2006, was $15 and $18 per share, respectively.

NORTHROP GRUMMAN CORPORATION

Stock Option activity for the three months ended March 31, 2007, was as follows:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($ in millions)
Outstanding at January 1, 2007	19,887,941	$49	5.0 years	$367
Granted	829,641	72		
Exercised	(3,277,124)	49		
Cancelled and forfeited	(13,196)	47		
Outstanding at March 31, 2007	**17,427,262**	**$50**	**5.2 years**	**$416**
Vested and expected to vest in the future at March 31, 2007	17,342,882	$50	5.1 years	$415
Exercisable at March 31, 2007	15,541,274	$49	4.7 years	$397
Available for grant at March 31, 2007	**11,931,019**			

The total intrinsic value of options exercised during the three months ended March 31, 2007, and 2006, was $77 million and $112 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at March 31, 2007 (for outstanding options), less the applicable exercise price.

Stock Awards – The fair value of Stock Awards is determined based on the closing market price of the company's common stock on the grant date. Compensation expense for Stock Awards is measured at the grant date and recognized over the vesting period. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. In the table below, the share adjustment resulting from the final performance measure is considered granted in the period that the related grant is vested. There were 2.4 million Stock Awards that vested and were issued in the three months ended March 31, 2006, with a total fair value of $153.7 million. There were 3.4 million Stock Awards granted in the three months ended March 31, 2006, with a weighted average grant date fair value of $65 per share.

Stock Award activity for the three months ended March 31, 2007, was as follows:

	Stock Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2007	7,364,227	$57	1.3 years
Granted (including performance adjustment on shares vested)	2,603,561	64	
Vested	(2,620,729)	47	
Forfeited	(72,687)	60	
Outstanding at March 31, 2007	**7,274,372**	**$63**	**1.7 years**
Available for grant at March 31, 2007	**4,870,782**		

Unrecognized Compensation Expense – At March 31, 2007, there was $333 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which $24 million relates to Stock Options and $309 million relates to Stock Awards. These amounts are expected to be charged to expense over a weighted-average period of 2 years.

NORTHROP GRUMMAN CORPORATION

13. IMPLEMENTATION OF FIN 48

The company adopted the provisions of FIN 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, on January 1, 2007. As a result of the implementation of FIN 48, the company made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by FIN 48. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, the company adjusted the estimated value of its uncertain tax positions by recognizing additional liabilities totaling $66 million through a charge to retained earnings, and reduced the carrying value of uncertain tax positions resulting from prior acquisitions by $63 million through a reduction of goodwill. Upon the adoption of FIN 48, the estimated value of the company's uncertain tax positions is a liability of $514 million resulting from unrecognized net tax benefits. The liability for uncertain tax positions is carried in other liabilities in the consolidated condensed statement of financial position as of March 31, 2007, and approximately $447 million is reported as long-term. If the company's positions are sustained by the taxing authority in favor of the company, approximately $331 million would be treated as a reduction of goodwill, and the balance of $183 million would reduce the company's effective tax rate. The company does not expect any reasonably possible material changes to the estimated amount of liability associated with its uncertain tax positions through January 1, 2008.

The company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. As of January 1, 2007, the company had accrued approximately $45 million for the payment of tax-related interest and penalties.

The company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (IRS) is currently examining the company's U.S. income tax returns for 1999 – 2003, including pre-acquisition activities of acquired companies, and commenced an examination of the company's U.S. income tax returns for 2004 – 2005 in the first quarter of 2007. In addition, open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material.

As of March 31, 2007, there have been no material changes to the liability for uncertain tax positions.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss were as follows:

$ in millions	**March 31, 2007**	December 31, 2006
Cumulative translation adjustment	**$ 24**	$ 22
Unrealized gain on marketable securities, net of tax of $2 as of March 31, 2007, and $1 as of December 31, 2006	**2**	2
Unamortized benefit plan costs, net of tax of $850 as of March 31, 2007, and $900 as of December 31, 2006	**(1,322)**	(1,284)
Total accumulated other comprehensive loss	**$(1,296)**	$(1,260)

Table of Contents

NORTHROP GRUMMAN CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated condensed statement of financial position of Northrop Grumman Corporation and subsidiaries as of March 31, 2007, and the related consolidated condensed statements of income, comprehensive income, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2007 and 2006. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2006, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 20, 2007, 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, 2006 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP
Los Angeles, California
April 23, 2007

NORTHROP GRUMMAN CORPORATION

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

OVERVIEW

The following discussion should be read along with the unaudited consolidated condensed financial statements included in this Form 10-Q, as well as the company's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the company's products and services, industry outlook, and business trends.

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

Operating performance for the three months ended March 31, 2007, compared to the same period in 2006 improved in almost every consolidated financial measure. Sales, operating margin, net income, cash from operations, and funded backlog all increased over the same period in 2006. A discussion of results on a consolidated basis and by reportable segment is included below. Notable non-contract events during the three months ended March 31, 2007, affecting the company's results included the following:

- Acquisition of Essex Corporation (Essex) – see Note 4 to the Consolidated Condensed Financial Statements in Part I, Item 1.
- Execution of accelerated share repurchase agreement – see Note 7 to the Consolidated Condensed Financial Statements in Part I, Item 1.
- Adoption of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* – see Note 13 to the Consolidated Condensed Financial Statements in Part I, Item 1.

The company manages and assesses the performance of its businesses based on individual performance on individual contracts and programs obtained generally from government organizations using the financial measures described on page I-27, with consideration given to the Critical Accounting Policies, Estimates and Judgments referred to below. Based on this approach and the nature of the company's operations, the discussion of results of operations generally focuses around the company's seven reportable segments versus distinguishing between products and services. Product sales are predominantly generated in the Electronics, Integrated Systems, Space Technology and Ships segments, while the majority of the company's service revenues are generated by the Information Technology, Mission Systems and Technical Services segments.

There were no significant changes to the company's products and services, industry outlook, or business trends from those disclosed in the company's 2006 Annual Report on Form 10-K.

For convenience, a brief description of certain programs discussed in this Form 10-Q are included in the "Glossary of Programs" beginning on page I-36.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

Changes in Critical Accounting Policies – There have been no changes in the company's critical accounting policies during the three months ended March 31, 2007, except for the treatment of tax contingency accruals.

Effective January 1, 2007, the company began to measure and record tax contingency accruals in accordance with FIN 48 – *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. The expanded disclosure requirements of FIN 48 are presented in Note 13 to the Consolidated Condensed Financial Statements in Part I, Item I.

NORTHROP GRUMMAN CORPORATION

FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of this Interpretation. FIN 48 also provides guidance on accounting for derecognition, interest and penalties, and classification and disclosure of matters related to uncertainty in income taxes. As in the past, changes in accruals associated with uncertainties arising from pre-acquisition years for acquired businesses are charged or credited to goodwill. Adjustments to other tax accruals are generally recorded in earnings in the period they are determined.

Prior to January 1, 2007, the company recorded accruals for tax contingencies and related interest when it was probable that a liability had been incurred and the amount of the contingency could be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority.

Use of Estimates – The company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information. Actual results could differ materially from those estimates.

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below.

	Three Months Ended March 31	
$ in millions, except per share	**2007**	2006
Sales and service revenues	**$7,344**	$7,093
Operating margin	**681**	604
Interest expense, net	**(82)**	(77)
Federal and foreign income taxes	**203**	164
Diluted earnings per share	**1.10**	1.02
Cash provided by (used in) operating activities	**400**	(115)

Sales and Service Revenues
Sales and service revenues for the three months ended March 31, 2007, increased $251 million, or 4 percent, as compared with the same period in 2006, reflecting increased revenues in all operating segments except the Integrated Systems segment.

Operating Margin
Operating margin as a percentage of total sales and service revenues for the three months ended March 31, 2007, was 9.3 percent, as compared to 8.5 percent for the same period in 2006. The increase was primarily due to a favorable net pension adjustment of $33 million in 2007 compared to an unfavorable net pension adjustment of $10 million in 2006 and lower unallocated expenses of $3 million. Total segment operating margin was 9.3 percent and 9.2 percent for the three months ended March 31, 2007, and 2006, respectively.

NORTHROP GRUMMAN CORPORATION

Operating margin consists of the following:

	Three Months Ended March 31	
$ in millions	**2007**	2006
Segment operating margin	**$683**	$653
Unallocated expenses	**(32)**	(35)
Net pension adjustment	**33**	(10)
Reversal of royalty income	**(3)**	(4)
Total operating margin	**$681**	$604

Unallocated Expenses – Unallocated expenses for the three months ended March 31, 2007, decreased $3 million, or 9 percent, as compared with the same period in 2006. The decrease was primarily due to lower post-retirement benefit costs determined under GAAP as a result of a plan design change in 2006.

Net Pension Adjustment – Net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with U.S. Government Cost Accounting Standards (CAS). For the three months ended March 31, 2007, and 2006, pension expense determined in accordance with GAAP was $87 million and $112 million, respectively, offset by pension expense determined in accordance with CAS of $120 million and $102 million, respectively. The improvement in GAAP pension cost primarily relates to higher returns on plan assets and a voluntary pre-funding in the fourth quarter of 2006.

Reversal of Royalty Income – Royalty income is included in segment operating margin for internal reporting purposes. This amount is reversed in the table above to arrive at the operating margin as determined in accordance with GAAP as royalty income is included in the "Other, net" line item discussed below.

General and Administrative Expenses – In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs on government contracts and such costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost.

General and administrative expenses for the three months ended March 31, 2007, increased $38 million, or 6 percent, as compared with the same period in 2006. The increase is primarily due to higher sales volume, increased property and casualty insurance costs as a result of hurricane Katrina and the acquisition of Essex.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2007, increased $5 million, or 6 percent, as compared with the same period in 2006. The increase was primarily due to a lower amount of interest-bearing cash deposits.

Federal and Foreign Income Taxes

The company's effective tax rate on income from continuing operations for the three months ended March 31, 2007, was 34.4 percent compared with 31.2 percent for the same period in 2006. During the three months ended March 31, 2006, the company recognized a net tax benefit of $18 million with respect to tax credits associated with qualified wages paid to employees affected by hurricane Katrina.

Diluted Earnings Per Share

Diluted earnings per share for the three months ended March 31, 2007, were $1.10, as compared with $1.02 per share in the same period in 2006. Earnings per share are based on weighted average diluted shares outstanding of

358.3 million for the three months ended March 31, 2007, and 350.8 million for the same period in 2006. See Note 7 to the Consolidated Condensed Financial Statements in Part I, Item 1.

Net Cash Provided by (Used in) Operating Activities
For the three months ended March 31, 2007, the company provided cash from operating activities of $400 million compared with cash used in operating activities of $115 million for the same period in 2006. The increase was primarily due to higher net collections on programs in progress and less cash expended for discontinued operations.

SEGMENT OPERATING RESULTS

Effective January 1, 2007, the company realigned businesses among its operating segments that possess similar customers, expertise, and capabilities. The realignment more fully leverages existing capabilities and enhances development and delivery of highly integrated services. The realignment primarily involved the Radio Systems business being transferred from the Space Technology segment to the Mission Systems segment and the UK AWACS program being transferred from the Information Technology segment to the Technical Services segment. On July 1, 2006, certain logistics, services and technical support programs from Electronics, Integrated Systems, Mission Systems, and Space Technology were transferred to Technical Services. The sales and segment operating margin in the following tables have been revised, where applicable, to reflect these realignments for all periods presented.

For presentation purposes, the company's seven reportable segments are categorized into four primary businesses. The Mission Systems, Information Technology and Technical Services reportable segments are presented as Information & Services. The Integrated Systems and Space Technology reportable segments are presented as Aerospace. The Electronics and Ships reportable segments are presented as separate businesses. The Ships reportable segment includes the aggregated results of the Newport News and Ship Systems operating segments.

NORTHROP GRUMMAN CORPORATION

$ in millions	Three Months Ended March 31 2007	2006
Sales and Service Revenues		
Information & Services		
Mission Systems	**$1,362**	$1,340
Information Technology	**1,038**	929
Technical Services	**520**	383
Total Information & Services	**2,920**	2,652
Aerospace		
Integrated Systems	**1,281**	1,416
Space Technology	**754**	733
Total Aerospace	**2,035**	2,149
Electronics	**1,591**	1,504
Ships	**1,156**	1,133
Intersegment eliminations	**(358)**	(345)
Sales and service revenues	**$7,344**	$7,093
Segment Operating Margin		
Information & Services		
Mission Systems	**$ 119**	$ 125
Information Technology	**86**	80
Technical Services	**28**	24
Total Information & Services	**233**	229
Aerospace		
Integrated Systems	**160**	148
Space Technology	**59**	58
Total Aerospace	**219**	206
Electronics	**181**	176
Ships	**79**	68
Intersegment eliminations	**(29)**	(26)
Segment operating margin	**$ 683**	$ 653

Segment operating results are discussed below with respect to the following financial measures:

Funded Contract Acquisitions – Funded contract acquisitions represent amounts funded during the period on customer contractually obligated orders. Funded contract acquisitions tend to fluctuate from period to period and are determined by the size and timing of new and follow-on orders and by appropriations of funding on previously awarded unfunded orders. In the period that a business is purchased, its existing funded order backlog as of the date of purchase is reported as funded contract acquisitions. In the period that a business is sold, its existing funded order backlog as of the divestiture date is deducted from funded contract acquisitions.

Sales and Service Revenues – Period-to-period sales generally vary less than funded contract acquisitions and reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in

terms of volume. Volume generally refers to increases (or decreases) in revenues incurred due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding margin change based on the margin rate for a particular contract.

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

Funded contract acquisitions, sales and service revenues, and segment operating margin in the tables within this section include intercompany amounts that are eliminated in the Consolidated Condensed Financial Statements in Part I, Item 1.

INFORMATION & SERVICES

Mission Systems

Mission Systems is a leading global system integrator of complex, mission-enabling systems for government, military, and commercial customers. Products and services are grouped into the following business areas: Command, Control and Communications (C3); Intelligence, Surveillance and Reconnaissance (ISR); and Missile Systems.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$1,696**	$1,825
Sales and Service Revenues	**1,362**	1,340
Segment Operating Margin	**119**	125
As a percentage of segment sales	**8.7%**	9.3%

Funded Contract Acquisitions
Mission Systems funded contract acquisitions for the three months ended March 31, 2007, decreased $129 million, or 7 percent, as compared with the same period in 2006, partially due to higher 2006 funded contract acquisitions as a result of delayed funding upon approval of the fiscal year 2006 defense budget. Significant acquisitions in 2007 included $307 million for the Intercontinental Ballistic Missile (ICBM) program, $157 million of funded backlog from the acquisition of Essex, $89 million for the Joint National Integration Center Research & Development (JRDC) program, and $47 million for the Ground-Based Midcourse Fire Control and Communications program.

Sales and Service Revenues
Mission Systems revenue for the three months ended March 31, 2007, increased $22 million, or 2 percent, as compared with the same period in 2006. The increase was primarily due to $35 million in higher sales in ISR and $18 million in higher sales in Missile Systems, partially offset by $37 million in lower sales in C3. The increase in ISR is due to the acquisition of Essex. The increase in Missile Systems is primarily due to higher volume in the Kinetic Energy Interceptor (KEI) program. The lower sales in C3 is primarily due to lower volume in the F-35 development program and various other C3 programs.

Segment Operating Margin
Mission Systems operating margin for the three months ended March 31, 2007, decreased $6 million, or 5 percent, as compared with the same period in 2006. The decrease reflects net performance declines of $7 million primarily due to positive improvement in the ICBM program in the first quarter of 2006, and $2 million in higher amortization of purchased intangibles, offset by $3 million attributable to net sales volume increases.

Information Technology
Information Technology is a premier provider of advanced information technology (IT) solutions, engineering, and business services for government and commercial customers. Products and services are grouped into the following business areas: Intelligence; Civilian Agencies; Commercial, State & Local (CS&L); and Defense.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$ 980**	$1,208
Sales and Service Revenues	**1,038**	929
Segment Operating Margin	**86**	80
As a percentage of segment sales	**8.3%**	8.6%

Funded Contract Acquisitions
Information Technology funded contract acquisitions for the three months ended March 31, 2007, decreased $228 million, or 19 percent, as compared with the same period in 2006. Significant non-restricted acquisitions in 2007 included $39 million for the Treasury Communication System program and $36 million for the Virginia IT outsourcing program.

Sales and Service Revenues
Information Technology revenue for the three months ended March 31, 2007, increased $109 million, or 12 percent, as compared with the same period in 2006. The increase was primarily due to $71 million in higher sales in CS&L and $52 million in higher sales in Intelligence, partially offset by $17 million in lower sales in Civilian Agencies. The higher sales in CS&L primarily reflect higher volume from programs awarded in 2006, including Virginia IT outsourcing, San Diego County IT outsourcing, and New York City Wireless. The increased sales in Intelligence primarily reflect new restricted program wins and the lower sales in Civilian Agencies reflects lower volume on a variety of programs.

Segment Operating Margin
Information Technology operating margin for the three months ended March 31, 2007, increased $6 million, or 8 percent, as compared with the same period in 2006 primarily attributable to the higher sales volume discussed above. The higher operating margin and lower operating margin rate reflect a higher percentage of newly commenced state and local programs.

Table of Contents

Technical Services

Technical Services is a leading provider of logistics, infrastructure, and sustainment support, and also provides a wide-array of technical services including training and simulation. Services are grouped into the following business areas: Systems Support, Life Cycle Optimization and Engineering (LCOE), and Training and Simulation.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$462**	$545
Sales and Service Revenues	**520**	383
Segment Operating Margin	**28**	24
As a percentage of segment sales	**5.4%**	6.3%

Funded Contract Acquisitions

Technical Services funded contract acquisitions for the three months ended March 31, 2007, decreased $83 million, or 15 percent, as compared with the same period in 2006. Significant acquisitions in 2007 included $105 million for the Joint Base Operations Support (JBOSC) program, $64 million for the Nevada Test Site (NTS) program, and $52 million for the Ft. Irwin program.

Sales and Service Revenues

Technical Services revenue for the three months ended March 31, 2007, increased $137 million, or 36 percent, as compared with the same period in 2006. The increase is primarily due to $115 million in higher sales in Systems Support due to increased volume in the NTS program and $28 million in higher sales in LCOE due to increased volume for F-15 repairs and other programs.

Segment Operating Margin

Technical Services operating margin for the three months ended March 31, 2007, increased $4 million, or 17 percent, as compared with the same period in 2006 primarily attributable to the higher sales volume as discussed above. The higher operating margin and lower operating margin rate are largely due to the impact of NTS.

AEROSPACE

Integrated Systems

Integrated Systems is a leader in the design, development, and production of airborne early warning, electronic warfare and surveillance, and battlefield management systems, as well as manned and unmanned tactical and strike systems. Products and services are grouped into the following business areas: Integrated Systems Western Region (ISWR); Integrated Systems Eastern Region (ISER); and International Programs.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$1,745**	$2,707
Sales and Service Revenues	**1,281**	1,416
Segment Operating Margin	**160**	148
As a percentage of segment sales	**12.5%**	10.5%

Funded Contract Acquisitions

Integrated Systems funded contract acquisitions for the three months ended March 31, 2007, decreased $962 million, or 36 percent, as compared with the same period in 2006. Significant acquisitions in 2007 included $745 million for the F/A-18 program, $287 million for the B-2 program, $148 million for the E-2 program, and $133 million for the EuroHawk program.

Sales and Service Revenues
Integrated Systems revenue for the three months ended March 31, 2007, decreased $135 million, or 10 percent, as compared with the same period in 2006. The decrease was primarily due to $128 million in lower ISER sales due to lower sales volume in the E-2D Advanced Hawkeye and EA-18G programs, and $22 million in lower ISWR sales due to lower volume in the F-35 program, partially offset by higher sales in the F/A-18 program (due to delivery of one additional unit), Euro Hawk and B-2 Support programs.

Segment Operating Margin
Integrated Systems operating margin for the three months ended March 31, 2007, increased $12 million, or 8 percent, as compared with the same period in 2006. The increase includes net performance improvements totaling $17 million primarily from the F/A-18 and B-2 programs. The improvements in the F/A-18 program (due to completion of production lot 5 and improved performance on production lot 6) and the B-2 program more than offset the impact of lower sales.

Space Technology
Space Technology develops and integrates a broad range of systems at the leading edge of space, defense, and electronics technology. The segment supplies products primarily to the U.S. Government that are critical to maintaining the nation's security and leadership in science and technology. Space Technology's business areas focus on the design, development, manufacture, and integration of satellite systems and subsystems, electronic and communications payloads, and high energy laser systems and subsystems. Products and services are grouped into the following business areas: Intelligence, Surveillance and Reconnaissance (ISR); Civil Space; Satellite Communications (SatCom); Missile & Space Defense; and Technology.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$794**	$1,509
Sales and Service Revenues	**754**	733
Segment Operating Margin	**59**	58
As a percentage of segment sales	**7.8%**	7.9%

Funded Contract Acquisitions
Space Technology funded contract acquisitions for the three months ended March 31, 2007, decreased $715 million, or 47 percent, as compared with the same period in 2006, primarily due to higher 2006 funded contract acquisitions as a result of delayed funding approval of the fiscal year 2006 defense budget. Significant acquisitions in 2007 included $354 million for restricted programs, $111 million for the James Webb Space Telescope (JWST) program, and $102 million for the Space Tracking and Surveillance System (STSS) program.

Sales and Service Revenues
Space Technology revenue for the three months ended March 31, 2007, increased $21 million, or 3 percent, as compared with the same period in 2006. The increase was primarily due to $16 million in higher sales in Missile & Space Defense and $16 million in higher sales in SatCom, partially offset by $10 million in lower Civil Space sales. The increase in Missile & Space Defense sales primarily reflect higher volume on the STSS program and various other programs. SatCom sales increased primarily due to higher volume in communications programs, including the Transformational Satellite (TSAT) communications system, partially offset by lower volume in the Advanced Extremely High Frequency (AEHF) program. The decrease in Civil Space sales was primarily attributable to lower volume in the National Polar-orbiting Operational Environmental Satellite System (NPOESS) program.

Segment Operating Margin
Space Technology operating margin for the three months ended March 31, 2007, was essentially unchanged as compared with the same period in 2006. The decrease in margin as a percentage of segment sales primarily reflects changes in volume due to the mix of program sales.

ELECTRONICS

Electronics is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronics provides systems to U.S. and international customers for such applications as airborne surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space sensing, intelligence processing, air traffic control, air and missile defense, homeland defense, communications, mail processing, biochemical detection, ship bridge control, and shipboard components. Products and services are grouped into the following business areas: Aerospace Systems; Government Systems; Naval & Marine Systems (NMS); Defensive Systems; Navigation Systems; and Defense Other.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$2,721**	$1,779
Sales and Service Revenues	**1,591**	1,504
Segment Operating Margin	**181**	176
As a percentage of segment sales	**11.4%**	11.7%

Funded Contract Acquisitions
Electronics funded contract acquisitions for the three months ended March 31, 2007, increased $942 million, or 53 percent, as compared with the same period in 2006. Significant acquisitions in 2007 included $875 million for the Flats Sequencing System program, $118 million for the LAIRCM Indefinite Delivery Indefinite Quantity (IDIQ) program and $99 million for a restricted program.

Sales and Service Revenues
Electronics revenue for the three months ended March 31, 2007, increased $87 million, or 6 percent, as compared with the same period in 2006. The increase was primarily due to $80 million in higher sales in NMS and $35 million in higher sales in Government Systems, partially offset by $20 million in lower sales in Aerospace Systems. The increase in NMS sales is primarily attributable to higher volume on an undersea program and a restricted program. The increase in Government Systems sales is primarily due to higher volume in postal automation programs. The lower Aerospace Systems sales are primarily due to hardware production winding down on international radar programs, partially offset by higher volume on restricted space programs.

Segment Operating Margin
Electronics operating margin for the three months ended March 31, 2007, increased $5 million, or 3 percent, as compared with the same period in 2006. The increase reflects $10 million attributable to higher sales volume and $11 million in lower amortization expense for purchased intangibles, partially offset by timing of program performance adjustments and changes in business mix. First quarter 2006 operating margin included favorable adjustments for improved program performance and contract closeouts primarily in Aerospace Systems and Defensive Systems.

NORTHROP GRUMMAN CORPORATION

SHIPS

Ships is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Ships is also one of the nation's leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels. Products and services are grouped into the following business areas: Aircraft Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense (CG&CD); Services; and Commercial & Other.

	Three Months Ended March 31	
$ in millions	**2007**	2006
Funded Contract Acquisitions	**$ 976**	$3,054
Sales and Service Revenues	**1,156**	1,133
Segment Operating Margin	**79**	68
As a percentage of segment sales	**6.8%**	6.0%

Funded Contract Acquisitions
Ships funded contract acquisitions decreased approximately $2 billion, or 68 percent, for the three months ended March 31, 2007, as compared with the same period in 2006, partially due to higher 2006 funded contract acquisitions as a result of delayed funding approval of the fiscal year 2006 defense budget. Significant acquisitions in 2007 included $407 million for the *Virginia*-class submarine program, $272 million for the DDG 1000 program, and $129 million for the LPD program.

Sales and Service Revenues
Ships revenue increased $23 million, or 2 percent, for the three months ended March 31, 2007, as compared with the same period in 2006. The increase was primarily due to $31 million in higher sales in Aircraft Carriers, $22 million in higher sales in CG&CD, and $20 million in higher sales in Submarines, offset by $50 million in lower sales in Surface Combatants. Sale increases were primarily due to higher volume in the *USS Carl Vinson*, Coast Guard Deepwater and *USS* Toledo repair programs. The decrease in Surface Combatants sales was primarily due to lower volume in the DDG 51 program due to a now-concluded labor strike at the Pascagoula, Mississippi shipyard, as well as lower volume on the DDG 1000 program driven by the transition from development to detail design and production. The strike also affected the LHD program in Expeditionary Warfare which was more than offset by higher volume in the LPD program despite the delivery of LPD 18 in the prior year.

Segment Operating Margin
Ships operating margin increased $11 million, or 16 percent, for three months ended March 31, 2007, as compared with the same period in 2006. The increase was primarily due to $15 million in net performance improvements including the LPD and *Virginia*-class Block II programs, partially offset by costs and program delays related to the labor strike.

BACKLOG

Total backlog at March 31, 2007, was approximately $60.3 billion. Total backlog includes both funded backlog (unfilled orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made.

[Table of Contents]

NORTHROP GRUMMAN CORPORATION

The following table presents funded, unfunded, and total backlog by segment.

	March 31, 2007			December 31, 2006		
$ in millions	**Funded**	**Unfunded**	**Total Backlog**	Funded	Unfunded	Total Backlog
Information & Services						
Mission Systems	**$ 3,453**	**$ 8,402**	**$ 11,855**	$ 3,119	$ 8,488	$ 11,607
Information Technology	**2,609**	**1,673**	**4,282**	2,667	1,840	4,507
Technical Services	**1,317**	**3,667**	**4,984**	1,375	3,973	5,348
Total Information & Services	**7,379**	**13,742**	**21,121**	7,161	14,301	21,462
Aerospace						
Integrated Systems	**4,749**	**4,100**	**8,849**	4,285	4,934	9,219
Space Technology	**1,663**	**6,689**	**8,352**	1,623	7,138	8,761
Total Aerospace	**6,412**	**10,789**	**17,201**	5,908	12,072	17,980
Electronics	**7,715**	**1,463**	**9,178**	6,585	1,583	8,168
Ships	**10,674**	**2,122**	**12,796**	10,854	2,566	13,420
Total	**$32,180**	**$ 28,116**	**$ 60,296**	$30,508	$ 30,522	$ 61,030

Major components in unfunded backlog as of March 31, 2007, included various restricted programs, the KEI program in the Mission Systems segment; the F-35 and F/A-18 programs in the Integrated Systems segment; the NPOESS program in the Space Technology segment; and Block II of the *Virginia*-class submarines program in the Ships segment.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities – Net cash provided by operating activities for the three months ended March 31, 2007, was $400 million compared to net cash used of $115 million for the same period of 2006. The increase was primarily due to higher net collections on programs in progress and less cash expended for discontinued operations.

For 2007, cash generated from operations supplemented by borrowings under credit facilities is expected to be sufficient to service debt and contract obligations, finance capital expenditures, complete the share repurchase program, and continue paying dividends to the company’s shareholders.

Investing Activities – Net cash used in investing activities for the three months ended March 31, 2007, was $747 million compared to $143 million in the same period of 2006. The increase is primarily due to the acquisition of Essex for $578 million. In addition, during the three months ended March 31, 2007, the company made capital expenditures of $158 million, and paid $30 million for deferred costs related to outsourcing contracts and related software costs. During the three months ended March 31, 2006, the company made capital expenditures of $173 million and received $37 million of insurance proceeds related to Hurricane Katrina.

Financing Activities – Net cash used in financing activities for the three months ended March 31, 2007, was $306 million compared to $974 million in the same period of 2006. The decrease is primarily due to $413 million in lower principal payments on long-term debt, $187 million less common stock repurchases, and $214 million in higher net borrowings under lines of credit, partially offset by $130 million less in proceeds from stock option exercises. Net cash used in financing activities for the three months ended March 31, 2007, primarily included $600 million for common stock repurchases and $121 million of dividends paid, primarily offset by $230 million of net borrowings under the lines of credit and $156 million in proceeds from stock option exercises. See Note 7 to the Consolidated Condensed Financial Statements in Part I, Item 1 for a discussion concerning the company’s common stock repurchases.

Table of Contents

NEW ACCOUNTING STANDARDS

The disclosure requirements and cumulative effect of adoption of the Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* are presented in Note 13.

Other new pronouncements issued but not effective until after March 31, 2007 are not expected to have a significant effect on the company's consolidated financial position or results of operations, with the possible exception of the following, which are currently being evaluated by management:

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159 – *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. SFAS No. 159* permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the effect that adoption of this statement will have on the company's consolidated financial position and results of operations when it becomes effective in 2008.

In September 2006, the FASB issued SFAS No. 157 – *Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the company beginning January 1, 2008, and the provisions of SFAS No. 157 will be applied prospectively as of that date. Management is currently evaluating the effect that adoption of this statement will have on the company's consolidated financial position and results of operations when it becomes effective in 2008.

FORWARD-LOOKING INFORMATION

Statements in this Form 10-Q that are in the future tense, and all statements accompanied by terms such as "believe," "project," "expect," "estimate," "forecast," "assume," "intend," "plan," "guidance," "anticipate," "outlook," and variations thereof and similar terms are intended to be "forward-looking statements" as defined by federal securities law. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made, but that are subject to the risks and uncertainties identified under Risk Factors in the company's 2006 Annual Report on Form 10-K as amended or supplemented by the information in Part II, Item 1A below, that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

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

- 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, claims, appeals and investigations;
- hurricane-related insurance recoveries;
- environmental remediation;
- acquisitions and divestitures of businesses;
- successful reduction of debt;
- performance issues with key suppliers and subcontractors;
- product performance and the successful execution of internal plans;
- successful negotiation of contracts with labor unions;
- allowability and allocability of costs under U.S. Government contracts;
- effective tax rates and timing and amounts of tax payments;

- the results of any audit or appeal process with the Internal Revenue Service; and
- anticipated costs of capital investments.

You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. As noted above, these forward-looking statements speak only as of the date when they are made. The company does not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the company's filings with the Securities and Exchange Commission on Form 10-K, Form 10-Q and Form 8-K.

GLOSSARY OF PROGRAMS

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

Program Name	**Program Description**
AEHF – Advanced Extremely High Frequency	Provide the communication payload for the nation's next generation military strategic and tactical relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
B-2 Stealth Bomber	Maintain strategic, long-range multi-role bomber with war-fighting capability that combines long range, large payload, all-aspect stealth, and near-precision weapons in one aircraft.
Coast Guard's Deepwater Program	Design, develop, construct and deploy surface assets to recapitalize the Coast Guard.
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
DDG 1000 Zumwalt-class destroyer	Design the first in a class of the U.S. Navy's multi-mission surface combatants tailored for land attack and littoral dominance.
E-2 Hawkeye	The E-2 provides Battle Management Command & Control (BMC2) capability to the fleet carrier battle groups by providing airborne surveillance, carrier airborne patrol, close air support, interdiction management and control, in-flight refueling scheduling and strike control.
E-2D Advanced Hawkeye	The E-2D builds upon the Hawkeye 2000 configuration with significant radar improvement performance. The E-2D provides over the horizon airborne early warning (AEW), surveillance, tracking, and command and control capability to the U.S. Naval Battle Groups and Joint Forces.
EA-18G Aircraft	Provide the airborne electronic attack (AEA) suite capability, which includes the ALQ-218 (V2) receiving system, the ALQ-227 communications countermeasures system and the Electronic Attack Unit.

Table of Contents

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
F/A-18 Super Hornet	As a principal subcontractor, NGC produces various parts and integrates all associated subsystems for the F/A-18 Hornet strike fighters.
Flats Sequencing System/Postal Automation	Build systems for the U.S. Postal Service designed to further automate the flats mail stream, which includes large envelopes, catalogs and magazines.
Ft. Irwin Logistics Support Services (LSS)	Operate and manage a large-scale maintenance and repair program involving tracked and wheeled vehicles, basic issue items, communications equipment, and weapons needed for desert training.
Ground-Based Midcourse Fire Control and Communications	Develop software to coordinate sensor and interceptor operations during missile flight.
ICBM – Intercontinental Ballistic Missile	Maintain readiness of the nation’s ICBM weapon systems.
JBOSC – Joint Base Operations Support	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
F-35 Development (Joint Strike Fighter)	Design, integration, and/or development of the center fuselage and weapons bay, communications, navigations, identification subsystem, systems engineering, and mission systems software as well as provide ground and flight test support, modeling, simulation activities, and training courseware.
JRDC – Joint National Integration Center Research & Development	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.
JWST – James Webb Space Telescope	Design, develop, integrate and test a space-based infrared telescope satellite to observe the formation of the first stars and galaxies in the universe.
Kinetic Energy Interceptor	Develop mobile missile-defense system with the unique capability to destroy a hostile missile during its boost, ascent or midcourse phase of flight.
LAIRCM IDIQ – Large Aircraft Infrared Countermeasures Indefinite Delivery and Indefinite Quantity	Infrared countermeasures systems for C-17 and C-130 aircraft. The IDIQ contract will further allow for the purchase of LAIRCM hardware for foreign military sales and other government agencies.
LHD	Build multipurpose amphibious assault ships.
LPD	Build amphibious transport dock ships.
New York City Wireless	Provide New York City’s broadband public-safety wireless network.
NPOESS – National Polar-orbiting Operational Environmental Satellite System	Design, develop, integrate, test, and operate an integrated system comprised of two satellites with mission sensors and associated ground elements to provide global and regional weather and environmental data.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
NTS – Nevada Test Site	Manage and operate the Nevada Test Site facility and provide infrastructure support, including management of the nuclear explosives safety team, support of hazardous chemical spill testing, emergency response training and conventional weapons testing.
San Diego County IT outsourcing	Provide high-level IT consulting and services to San Diego County including data center, help desk, desktop, network, applications and cross-functional services.
Space Radar	Develop system concepts and architectures as part of the first phase of this program to provide intelligence, surveillance and reconnaissance capabilities for warfighters and the intelligence community.
STSS – Space Tracking and Surveillance System	Develop a critical system for the nation's missile defense architecture employing low-earth orbit satellites with onboard infrared sensors to detect, track and discriminate ballistic missiles. The program includes two flight demonstration satellites with subsequent development and production blocks of satellites.
Treasury Communication System	Provide telecommunications infrastructure for collaboration, communication and computing as required by the U.S. Department of Treasury.
TSAT – Transformational Satellite Communications System	Develop wideband and protected communications satellite architecture and payloads.
USS Carl Vinson	Refueling and complex overhaul of the nuclear-powered aircraft carrier *USS Carl Vinson* (CVN 70).
UK AWACS program	Provide aircraft-maintenance and design-engineering support services.
Virginia IT outsourcing	Provide high-level IT consulting and services to Virginia state and local agencies including data center, help desk, desktop, network, applications and cross-functional services.
Virginia-class Submarines	Construct the newest attack submarine in conjunction with Electric Boat.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates – The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term debt outstanding under the credit agreement, short-term investments, and long-term notes receivable. At March 31, 2007, substantially all borrowings were fixed-rate long-term debt obligations, of which a significant portion are not callable until maturity. The company's sensitivity to a 1 percent change in interest rates is tied primarily to its $2 billion credit agreement, which had $300 million outstanding at March 31, 2007.

Foreign Currency – The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At March 31, 2007, 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 to the consolidated financial statements.

Accelerated Stock Repurchase – The company is subject to equity price risk due to the repurchase of common stock through its accelerated stock repurchase program (see Part II, Item 2). At the end of the program, the company is required to receive or pay a price adjustment based on the difference between the average price paid by Credit Suisse, New York Branch (Credit Suisse) for the company's stock over the life of the program and the initial purchase price of $75.29 per share. At the company's election, any payments obligated pursuant to the settlement of the contract could either be in cash or in shares of the company's common stock. Changes in the fair value of the company's common stock will impact the final settlement of the program. Settlement is expected to occur in the second quarter of 2007, depending upon the timing and pace of open market purchases. Assuming Credit Suisse purchases the remaining shares at a price per share equal to the closing price of the company's common stock on March 30, 2007 ($74.22), Credit Suisse would be required to reimburse approximately $13.2 million (net of related settlement fees and other items) to the company to complete the transaction.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The company's principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of March 31, 2007, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2007, no change occurred in the company's internal control over financial reporting that materially affected, or is likely to materially affect, the company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

As previously disclosed, in October 2005, the U.S. Department of Justice and a classified U.S. Government customer apprised the company of potential substantial claims relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a component of the company. The relationship, if any, between the potential claims and a civil False Claims Act case that remains under seal in the U.S. District Court for the Central District of California remains unclear to the company. In the third quarter of 2006, the parties commenced settlement discussions. While the company continues to believe that it did not breach the contracts in question and that it acted appropriately in this matter, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of $112.5 million in the third quarter of 2006 to cover the cost of the settlement proposal and associated investigative costs. The charge has been recorded within “General and administrative expenses” in the consolidated statements of income. The company extended the offer in an effort to avoid litigation and in recognition of the value of the relationship with this customer. The U.S. Government has advised the company that if settlement is not reached it will pursue its claims through litigation. Because of the highly technical nature of the issues involved and their classified status and because of the significant disagreement between the company and the U.S. Government as to the U.S. Government’s theories of liability and damages (including a material difference between the U.S. Government’s damage theories and the company’s offer), final resolution of this matter could take a considerable amount of time, particularly if litigation should ensue. If the U.S. Government were to pursue litigation and were to be ultimately successful on its theories of liability and damages, which could be trebled under the Federal False Claims Act, the effect upon the company’s consolidated financial position, results of operations, and cash flows would materially exceed the amount provided by the company. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail. Accordingly, the ultimate disposition of this matter cannot presently be determined.

Based upon the available information regarding matters that are subject to U.S. Government investigations, other than as set out above, the company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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

As previously disclosed, the company is a defendant in litigation brought by Cogent Systems, Inc. (Cogent) in Los Angeles Superior Court in California on April 20, 2005, for unspecified damages for alleged unauthorized use of Cogent technology relating to fingerprint recognition. Cogent has asserted entitlement to damages totaling in excess of $160 million, loss of goodwill and enterprise value in an amount not yet specified by the plaintiff, and other amounts, including, without limitation, exemplary damages and attorneys’ fees and interest. The trial date has been set for May 22, 2007, with a mediation scheduled for May 3, 2007. The company believes, but can give no assurance, that the outcome of this matter would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Table of Contents

On March 27, 2007, the U.S. District Court, Central District of California, consolidated two separately filed ERISA class actions (Grabek v. Northrop Grumman Corporation, et al., previously styled Waldbuesser v. Northrop Grumman Corporation, et al., and Heidecker v. Northrop Grumman Corporation, et al.) into the In Re Northrop Grumman Corporation ERISA Litigation for discovery and other purposes, as each allege similar issues of law and fact. As previously reported, plaintiffs in Grabek allege breaches of fiduciary duty by the company, certain of its administrative and Board committees, all members of the company's Board of Directors, and certain company officers and employees with respect to alleged excessive, hidden and/or otherwise improper fee and expense charges to the Northrop Grumman Savings Plan and the Northrop Grumman Financial Security and Savings Plan (both of which are 401(k) plans). Heidecker asserts similar claims, but has dismissed the company's Board of Directors. Each lawsuit seeks unspecified damages, removal of individuals acting as fiduciaries to such plans, payment of attorney fees and costs, and an accounting. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in the company's 2006 Annual Report on Form 10-K.

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

Purchases of Equity Securities – The table below summarizes the company's repurchases of common stock during the three months ended March 31, 2007.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Numbers of Shares Purchased as of Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2007, through January 31, 2007				$1.176 billion
February 1, 2007, through February 28, 2007	7,969,185	$75.29	7,969,185	$ 576 million
March 1, 2007, through March 31, 2007				$ 576 million
Total	**7,969,185**	**$75.29**	**7,969,185**	$ 576 million

(1) On December 14, 2006, the company's board of directors authorized a share repurchase program of up to $1 billion of its outstanding common stock. This new authorization is in addition to $176 million remaining on the company's previous share repurchase authorization.

Under this program, the company entered into an accelerated share repurchase agreement with Credit Suisse, New York Branch (Credit Suisse) on February 21, 2007, to repurchase approximately 8 million shares of common stock at an initial price of $75.29 per share for a total of $600 million. Under this agreement, Credit Suisse immediately borrowed shares that were sold to and canceled by the company. Subsequently, Credit Suisse began purchasing shares in the open market to settle its share borrowings. The cost of the company's initial share repurchase is subject to adjustment based on the actual cost of the shares subsequently purchased by Credit Suisse. The price adjustment can be settled, at the company's option, in cash or in shares of common stock.

NORTHROP GRUMMAN CORPORATION

As of March 31, 2007, Credit Suisse had purchased 3.6 million shares, or 45 percent of the shares under the agreement, at an average price per share of $72.91 net of commissions and other items. Assuming Credit Suisse purchases the remaining shares at a price per share equal to the closing price of the company's common stock on March 30, 2007 ($74.22), Credit Suisse would be required to reimburse approximately $13.2 million to the company to complete the transaction. The settlement amount may increase or decrease depending upon the average price paid for the shares under the program. Settlement is expected to occur in the second quarter of 2007, depending upon the timing and pace of the purchases, and would result in an adjustment to shareholders' equity.

With the exception of the accelerated share repurchase agreement with Credit Suisse noted above, share repurchases take place at management's discretion and under pre-established, non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

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

No information is required in response to this item.

Item 5. Other Information

No information is required in response to this item.

Item 6. Exhibits

3(1)	Bylaws of Northrop Grumman Corporation, as amended February 9, 2007 (incorporated by reference to Exhibit 3.1 to Form 8-K dated February 9, 2007 and filed February 13, 2007)
10(1)	Accelerated Share Repurchase Agreement, dated February 21, 2007 between Northrop Grumman Corporation and Credit Suisse, New York Branch (incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed February 22, 2007)
10(2)	Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended September 17, 2003) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
	*(i) Form of Restricted Performance Stock Rights Agreement (officer), applicable to 2007 Restricted Performance Stock Rights
	*(ii) Form of Agreement for 2007 Stock Options (officer)
	*(iii) Terms and Conditions Applicable to Special 2007 Restricted Stock Rights Granted to James F. Palmer dated March 12, 2007
*10(3)	Offering letter dated February 1, 2007, from Northrop Grumman Corporation to James F. Palmer relating to position of Corporate Vice President and Chief Financial Officer
10(4)	Term Sheet for James F. Palmer for position of Corporate Vice President and Chief Financial Officer (incorporated by reference to Exhibit 99.1 to Form 8-K dated and filed February 13, 2007)
*10(5)	Northrop Grumman Corporation Special Officer Retiree Medical Plan (As Amended and Restated Effective April 1, 2007)
*15	Letter from Independent Registered Public Accounting Firm

NORTHROP GRUMMAN CORPORATION

*31.1	Rule 13a-15(e)/15d-15(e) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

* Filed with this Report

** Furnished with this Report

NORTHROP GRUMMAN CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHROP GRUMMAN CORPORATION
(Registrant)

Date: April 24, 2007

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

Exhibit 10(2)(i)

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2007 RESTRICTED PERFORMANCE STOCK RIGHTS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain "Restricted Performance Stock Rights" ("RPSRs") granted by Northrop Grumman Corporation (the "Company") in 2007. If you were granted an RPSR award by the Company in 2007, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your "Grant Letter") and are also reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply only with respect to your 2007 RPSR award. If you were granted an RPSR award, you are referred to as the "Grantee" with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company's Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2007 to December 31, 2009 (the "Performance Period"). The target number of RPSRs subject to your award is subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Payment of RPSRs.

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

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

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

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

1.4 ***Dividend Equivalents***. At the conclusion of the Performance Period, the Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to the Earned RPSRs (if any). For purposes of these Terms, "Dividend Equivalents" means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of

Earned RPSRs during the period from the beginning of the Performance Period until the date the Earned RPSRs are paid (without interest or other adjustments to reflect the time value of money, but subject to adjustment pursuant to Section 5.1). For these purposes, any Earned RPSRs in excess of the target number of RPSRs subject to the award shall be considered to have been granted at the beginning of the Performance Period.

1.5 *Payment of Dividend Equivalents*. Dividend Equivalents (if any) will be paid at the same time as the Earned RPSRs to which they relate are paid. Dividend Equivalents will be paid in cash or, in the discretion of the Committee, distributed in shares of Company Common Stock or a combination of cash and shares. If distributed in shares, the number of shares to be issued will be determined by (a) determining the aggregate cash amount of the Dividend Equivalents payable, and (b) dividing such amount by the average closing price of a share of Common Stock on the composite tape of the New York Stock Exchange for trading days during the last month of the Performance Period. Fractional shares will not be paid.

2. Early Termination of Award; Termination of Employment.

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

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

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

Retirement in General. Subject to the following paragraph, in the case of Retirement, (a) the number of Earned RPSRs subject to prorating shall be calculated based on the entire Performance Period in accordance with Section 1 above as if the Grantee had not terminated employment, and (b) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made at the same time as payment for Earned RPSRs generally with respect to the Performance Period. The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement With Certificate of Divestiture. In the case of Retirement where the Grantee accepts a position in the federal government and a certificate of divestiture (as defined under Code section 1043(b)(2)) is issued which applies to the award or an accelerated distribution under the award is otherwise permitted under Code Section 409A based on such federal government employment (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year containing the 75th day following the Grantee's date of Retirement (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

2.3 *Other Terminations of Employment*. Subject to Section 5.2, all RPSRs subject to the award and related Dividend Equivalents terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or

Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

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

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

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

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

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

2.9 ***Effect of Code Section 409A***. Notwithstanding anything else contained herein to the contrary, if an RPSR and related Dividend Equivalents are to be paid upon a Grantee's separation from service, and the Grantee is a "specified employee" within the meaning of Code Section 409A(a)(2)(B)(i), payment shall be made in the seventh month after the Grantee's separation from service.

3. Non-Transferability and Other Restrictions.

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

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

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

in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

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

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

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

(b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

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

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the termination shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made in the calendar year containing the 60th day after the later of the Change in Control of the Company or the Grantee's separation from service (and generally will be paid on or about such 60th day); provided, however, if such later event is not a permissible distribution event under Code Section 409A(a)(2)(A), payment shall be made at the same time payment would have otherwise been made had such Change in Control not occurred.

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

realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and before the occurrence of the Change in Control (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the Change in Control shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made in the calendar year containing the 60th day after the Change in Control (and generally will be paid on or about such 60th day); provided, however, if the Change in Control is not a permissible distribution event under Code Section 409A(a)(2)(A), payment shall be made at the same time payment would have otherwise been made had such Change in Control not occurred.

6. Tax Matters.

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

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

6.3 ***Compliance with Code Section 409A***. To the extent an RPSR award is subject to Code Section 409A, the Committee shall administer and construe the award in a manner designed to avoid adverse tax consequences under Section 409A.

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. Definitions.

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

"**Board**" means the Board of Directors of the Company.

"**Cause**" means the occurrence of either or both of the following:

(i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act

constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

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

"**Change in Control**" is used as defined in the Plan.

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

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

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

"**Common Stock**" means the Company's common stock.

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

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

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

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

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

(ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the first to occur of the start of the Performance Period or the start of the Protected Period, or as the same shall be increased from time to time.

(iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive

compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

(iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

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

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

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

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

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

(i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

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

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

Exhibit 10(2)(ii)

FORM B – OFFICER

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO 2007 STOCK OPTIONS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain stock options granted by Northrop Grumman Corporation (the "Company") in 2007. If you were granted a stock option by the Company in 2007, the date of grant of your stock option (your "Option"), the total number of shares of common stock of the Company subject to your Option, and the per share exercise price of your Option are set forth in the letter from the Company announcing your Option grant (your "Grant Letter") and are reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply to your Option if referenced in your Grant Letter and/or on the Stock Plan System with respect to your Option. If you were granted an Option, you are referred to as the "Grantee" with respect to your Option. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

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

1. Vesting; Exercise of Option.

1.1 ***Vesting***. The Option is exercisable only to the extent that it has vested and has not expired or terminated. Subject to Sections 2 and 5 below, one-fourth (1/4) of the total number of shares of Company Common Stock subject to the Option (subject to adjustment as provided in Section 5.1) shall vest and become exercisable upon each of the first, second, third and fourth anniversaries of the Grant Date.

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

1.3 ***Payment of Exercise Price***. The exercise price shall be paid at the time of exercise. Payment may be made (a) in cash; (b) in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part in Common Stock of the Company (either actually or by attestation and valued at their Fair Market Value on the date of exercise of the Option, provided, however, that any previously-acquired shares of Common Stock used to pay the exercise price of the Option that have been acquired directly from the Company must have been owned by the Grantee for at least six (6) months before the date of such exercise); (c) in a combination of payments under clauses (a) and (b); or (d) pursuant to a cashless exercise arranged through a broker or other third party. Notwithstanding the foregoing, the Committee may at any time (a) limit the ability of the Grantee to exercise the Option through any method other than a cash payment, or (b) require the Grantee to exercise, to the extent possible, the Option in the manner described in clause (b) of the preceding sentence.

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

2. Termination of Option; Termination of Employment.

2.1 ***General***. The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void at the close of business on the last business day preceding the tenth (10th) anniversary of the Grant Date (the "Expiration Date"). The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and

become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

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

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

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

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

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

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

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

3. Non-Transferability and Other Restrictions.

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

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

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

5. Adjustments; Change in Control.

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

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

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

(b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated

vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

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

6. Tax Matters.

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

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

7. Committee Authority.

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

8. Plan; Amendment.

The Option is governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such

amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

9. Definitions.

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

"**Board**" means the Board of Directors of the Company.

"**Cause**" means the occurrence of either or both of the following:

(i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

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

"**Change in Control**" is used as defined in the Plan.

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

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

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

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

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

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

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

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

(i) A material and substantial reduction in the nature or status of the Grantee's authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected

Period. For the purpose of the preceding test, the Grantee and the Company shall mutually agree on a nationally-recognized consulting firm; provided that, if agreement cannot timely be reached, the Company and the Grantee shall each timely choose a nationally-recognized firm and representatives of these two firms shall promptly choose a third firm, which third firm will make the determination referred to in the preceding sentence. The written opinion of the firm thus selected shall be conclusive as to this issue.

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

(ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the Grant Date or as the same shall be increased from time to time.

(iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

(iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

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

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

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

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

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

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

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

(i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the

Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

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

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO SPECIAL 2007 RESTRICTED STOCK RIGHTS GRANTED TO JAMES F. PALMER UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) to **James F. Palmer** in 2007 in connection with his employment with the Company. The date of grant of the RSR award is March 12, 2007 (the “Grant Date”). The number of RSRs applicable to the award is 40,000. The date of grant and number of RSRs are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to Mr. Palmer’s Special 2007 RSR award. You (Mr. Palmer) are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided herein. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. <u>Vesting; Issuance of Shares</u>.

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

The Company shall pay a vested RSR as soon as practicable following the vesting of the RSR and no later than March 15th of the year following the year of vesting. The Company shall pay such vested RSRs in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for vested RSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested. No fractional shares will be issued.

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

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

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

2.3 ***Salary Continuation***. Subject to Section 2.2 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.2) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.2, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

2.4 ***Sale or Spinoff of Subsidiary or Business Unit***. For purposes of the RSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or

business unit is sold, spun off, or otherwise divested and the Grantee does not otherwise continue to be employed by the Company after such event.

2.5 *Continuance of Employment Required*. Except as expressly provided in Section 2.6 and in Section 5, the vesting of the RSRs subject to the award requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of the award. Employment before or between specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

2.6 *Death, Disability or Qualifying Termination*. If (i) the Grantee dies while employed by the Company or a subsidiary, or (ii) the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Disability, or (iii) the Grantee undergoes a Qualifying Termination, then the outstanding and previously unvested RSRs subject to the award shall vest as of the date of the Grantee's death , Disability or Qualifying Termination, as applicable. In the event of the Grantee's death prior to the delivery of shares or other payment with respect to any vested RSRs, the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such vested and unpaid RSRs.

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

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

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

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

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

5.1 *Adjustments*. The RSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

5.2 *Possible Acceleration on Change in Control*. Notwithstanding the Company's ability to terminate the award as provided in Section 5.3 below, the outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date of the Grantee's termination of employment in the following circumstances:

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

(b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

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

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

6. Tax Matters.

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

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. Definitions.

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

"**Board**" means the Board of Directors of the Company.

"**Cause**" means the occurrence of either or both of the following:

(i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

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

"**Change in Control**" is used as defined in the Plan.

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

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

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

"**Disability**" shall have the same meaning as in the Company's Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation.

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

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

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

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

(ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the date of grant of the award or as the same shall be increased from time to time.

(iii) A significant reduction by the Company of the Grantee's aggregate incentive opportunities under the Company's short and/or long-term incentive programs, as such opportunities exist on the date of grant of the award, or as such opportunities may be increased after the date of grant of the award. For this purpose, a significant reduction in the Grantee's incentive opportunities shall be deemed to have occurred in the event the Grantee's 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 date of grant of the award.

(iv) The failure of the Company to maintain (x) the Grantee's relative level of coverage and accruals under the Company's employee benefit and/or retirement plans, policies, practices, or arrangements in which the Grantee participates as of the date of grant of the award, both in terms of the amount of benefits provided, and amounts accrued and (y) the relative level of the Grantee'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 Grantee participated in such plans immediately prior to the date of grant of the award. For this purpose, the Company may eliminate and/or modify existing programs and coverage levels; provided, however, that the Grantee'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 Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

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

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

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

(i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

"**Qualifying Termination**" shall have the same meaning as in the Company's Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation.

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

Exhibit 10(3)

2007-002

February 1, 2007

Mr. James F. Palmer
[Address Intentionally Left Blank]

Dear Jim:

As we discussed, Northrop Grumman Corporation (“Northrop Grumman” or “the Company”) is pleased to offer you a position on our senior management team as Corporate Vice President and Chief Financial Officer. In this position, you will be a member of our Corporate Policy Council (“CPC”).

This letter sets forth a summary of the key compensation and benefit provisions of this offer.

1. Base Salary.

Your initial base salary will be $725,000 per year, which will be subject to periodic adjustment in accordance with the Company’s normal salary review process.

2. Bonus.

You will be a participant in the Company’s Annual Incentive Plan (“AIP”), which provides annual bonuses. Your target bonus under the AIP will be 70% of your annual base salary. The actual bonus that you earn from year to year may be adjusted upwards or downwards from the target bonus amount by multiplying the target bonus by the “Unit Performance Factor” and the “Individual Performance Factor,” as such terms are defined in the AIP; provided, however, that your actual bonus for calendar year 2007, to be paid on or before March 15, 2008, shall be no less than

$507,500 if you have remained employed by the Company through the end of 2007; provided, a pro rata bonus may be payable pursuant to the VP Severance Plan or the Northrop Grumman Corporation March 2004 Special Agreement (the “March 2004 Special Agreement”) (see Sections 10 and 7, respectively, below).

3. Equity Grants.

You will be eligible for annual grants of equity awards under the terms of the Company’s Long-Term Incentive Stock Plan (and any successor to such plan) (“LTISP”). Your initial grant for calendar year 2007 shall be 40,000 stock options and 20,000 Restricted Performance Stock Rights (“RPSRs”).

The stock options will be awarded to you, and will have a strike price equal to the closing price of Northrop Grumman’s stock on the New York Stock Exchange, on the date you commence employment with Northrop Grumman (“Date of Hire”). One quarter of the shares subject to the options shall vest and become exercisable upon each of the first, second, third and fourth anniversaries of your Date of Hire, subject, in each case, to the termination of employment rules set forth in the applicable Grant Certificate (as defined below).

The RPSRs will vest at the end of a three-year performance period beginning January 1, 2007 and ending on December 31, 2009, subject to the performance and termination of employment rules set forth in the Grant Certificate.

All equity grants, including the Restricted Stock Rights (“RSRs”) provided for below, shall be subject to the terms and conditions of the LTISP and the grant certificates provided to Corporate Vice Presidents (“Grant Certificates”), forms of which have been provided to you.

In calendar years following 2007, you will be eligible for further equity grants on the same basis (including guideline amounts for awards) as other Corporate Vice Presidents.

4. Executive Perquisites.

You will receive the same executive perquisites as other Corporate Vice Presidents who are CPC members generally receive. Those perquisites currently include a car allowance, allowances for tax

preparation/financial planning and club membership, personal liability insurance, and an executive physical examination program, with an approximate total value of $35,000. You will also receive vacation of not less than four weeks per calendar year.

5. Pension Benefit.

As a member of the CPC, you will participate in the CPC Supplemental Executive Retirement Plan ("CPC SERP"). You currently have an accrued but unvested tax-qualified and supplemental pension benefit from a defined benefit plan at your present employer, Visteon Corporation, which has an estimated lump sum present value of approximately $535,000. You agree to provide evidence reasonably satisfactory to Northrop Grumman of the actual estimated present value of this benefit within ninety days of your Date of Hire. The "Visteon Present Value" shall be the lesser of either: (1) the actual estimated present value, or (2) $588,500. Northrop Grumman agrees that if at the time you terminate from employment with the Company, the total lump sum present value of your vested Northrop Grumman pension benefit from all Northrop Grumman qualified and unqualified pension plans (the "NGC Present Value") is less than the Visteon Present Value, then Northrop Grumman shall make a cash payment to you in the amount by which the Visteon Present Value exceeds the NGC Present Value. This amount shall be paid within thirty days of your employment termination or at such later time as may be necessary to comply with Section 409A of the Internal Revenue Code ("Section 409A").

6. Medical Benefits.

While employed by Northrop Grumman, you will participate in the Executive Medical Plan in which other Corporate Vice Presidents participate. You will also participate in the Special Officer Retiree Medical Plan.

7. Change in Control Protection.

You will be provided with the same March 2004 Special Agreement provided to other Corporate Vice Presidents, which provides you with protection in the event of a "Change in Control" of Northrop Grumman Corporation (as that term is defined in the March 2004 Special Agreement). That Agreement currently provides severance

benefits equal to three times the sum of your base salary and bonus, three years of medical, dental and life coverage, a pro rata annual bonus for the year of termination and "gross up" protection for taxes which may be due under Internal Revenue Code Section 4999.

8. Liability Insurance Protection.

The Company will cover you under its directors and officers liability insurance policies, which provide protection for claims made against you as an officer of Northrop Grumman Corporation. The Company will provide you its standard indemnification agreement provided to CPC members.

9. Relocation Benefit.

You will be provided with the same relocation benefit available to other Corporate Vice Presidents, which includes a full "gross up" feature pursuant to which the Company reimburses you in an amount equal to the income and employment taxes attributable to the relocation benefit, including relocation benefits provided below. In addition, the Company will provide you with three benefits outside of our normal relocation policy: (a) the Company will pay for closing costs and other items covered by the relocation policy in connection with your purchase of a home in Los Angeles; (b) we will extend the temporary living benefit in the relocation policy to a reasonable period beyond the 60 day limit set forth in the policy (anticipated to be up to 120 additional days); and (c) we will move your personal effects and vehicles from Detroit to Los Angeles, and will also move items designated by you from Seattle to Los Angeles.

10. Severance Protection.

You will be entitled to benefits under the terms of the Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation ("VP Severance Plan") in the event you undergo a "Qualifying Termination" as that term is defined in the VP Severance Plan, assuming you are not entitled to benefits in connection with that termination under your March 2004 Special Agreement, and provided that you first sign a release of claims as required by the plan, if that "Qualifying Termination" occurs within one year of your Date of Hire. If your "Qualifying Termination

occurs more than one year after your Date of Hire, you will be eligible for such benefits on the same basis as other CPC members. The benefits you will be either entitled or eligible to receive under this Plan shall be the same as benefits afforded to other Corporate Vice Presidents. Those benefits currently include a cash payment of two times the sum of base salary and bonus as well as continuation of medical and dental coverage for two years and a pro rata annual bonus for the year of termination.

11. Reimbursement for Legal Fees.

The Company shall reimburse you for reasonable professional fees you incurred in connection with the negotiation and preparation of this offer letter and will provide you in addition a tax gross up amount equal to income taxes due on the reimbursed professional fees.

12. Make Up for Lost Visteon Benefits.

In consideration of the fact that you are forfeiting certain equity awards and other benefits as a result of your departure from Visteon Corporation, the Company will provide you with a special grant of 40,000 Restricted Stock Rights ("Special 2007 RSRs"). One quarter of these Special 2007 RSRs shall vest upon each of the first, second, third and fourth anniversaries of your Date of Hire with the Company, subject, in each case, to the termination of employment rules set forth in the applicable grant certificates (except for the accelerated vesting provisions set forth below). These Special 2007 RSRs shall be subject to all the terms and conditions of the LTISP and of Northrop Grumman's current standard grant certificate for RSR grants ("RSR Grant Certificate"); provided, however, that in the event of your death, Disability or Qualifying Termination (as the latter two terms are defined in the VP Severance Plan) prior to the vesting or other termination of the Special 2007 RSRs, any unvested portion of these Special 2007 RSRs shall fully vest as of the date of such death, Disability or Qualifying Termination. The foregoing accelerated vesting of these Special 2007 RSRs shall control notwithstanding anything to the contrary in the RSR Grant Certificate. This special accelerated vesting treatment shall only apply to the Special 2007 RSRs and not to any future RSR grants you may receive.

In addition, in the event that applicable securities laws or Visteon insider trading policies preclude you from exercising all then-vested grants of Visteon options from the time your employment with Visteon terminates through the 90 day period following termination of employment when such options terminate in accordance with their terms, the Company will provide you a cash payment equal to the value of these options as of the date you terminate from Visteon. This payment will be made promptly following the date the vested Visteon options terminate without having become exercisable due to applicable securities law restrictions, provided you have first provided the Company with reasonably satisfactory information about why you can not exercise these options, the date the options terminate, and the actual value of these options as of the date your employment with Visteon terminates. For purposes of this offer the "value" of these vested Visteon options equals the fair market value of the total number of Visteon shares subject to the vested options (determined by the closing market price of Visteon stock as of the date your employment with Visteon terminates) less the aggregate exercise price of the options. The current estimated value of these options is $608,000.

13. Signing Bonus.

The Company will provide you with a cash signing bonus in the total amount of $700,000, to be paid in three equal installments. The first installment will be paid thirty days after your Date of Hire; the second installment on the first anniversary of your Date of Hire; and the third installment on the second anniversary of your Date of Hire. Except as provided for in the next two sentences, your entitlement to each installment of the signing bonus is contingent on your continued employment with the Company through the installment payment date. However, in the event of your Disability or Qualifying Termination (as these two terms are defined in the VP Severance Plan) prior to payment of the full signing bonus, the remaining balance will be paid in full within thirty days of such event. In the event of your death prior to payment of the full signing bonus, the remaining balance will be paid to your estate as soon as practicable after receipt by the Company of notice of your death.

14. Boeing SERP.

One of your prior employers was The Boeing Corporation ("Boeing"). You are currently receiving a supplemental non-

qualified executive retirement benefit from Boeing in the amount of $8,632 per month (the "Boeing SERP Benefit"). This Boeing SERP Benefit includes a joint and survivor provision pursuant to which your current spouse is entitled to receive a certain percentage of the Boeing SERP Benefit (the "J&S Benefit") per month for her lifetime in the event you predecease her. However, it is possible that under the terms of the Boeing SERP, Boeing may cause you to forfeit this benefit as a result of your employment with Northrop Grumman Corporation. If this occurs, Northrop Grumman will replace the lost Boeing SERP Benefit by providing you (and, if applicable, your spouse) the same benefits on the same terms as Boeing would have provided had it not determined to cease payments, provided you have first submitted to the Company reasonably satisfactory information substantiating the calculation of the monthly amount due and the amount of the J&S Benefit. In addition, you agree to provide the Company with copies of your benefit elections under the Boeing SERP within a reasonable period of time after your Date of Hire. In the event of a "Change in Control" of Northrop Grumman (as that term is defined in the March 2004 Special Agreement), the Company will, to the extent permitted without triggering any tax, penalties or interest under Section 409A, pay you the actuarial present value (determined by applying the same mortality assumptions and interest rate as apply for determining lump sum actuarial equivalence under the CPC SERP) of your remaining Boeing SERP Benefit in lieu of the payments it is obligated to make under this Section 14 within ninety days of the effective date of the Change in Control. In the event such accelerated payment can not be made due to the foregoing Section 409A limitation, the benefits shall continue as otherwise provided in this paragraph. You agree to use your best efforts to retain the Boeing SERP Benefit you are receiving from Boeing as well as the J&S Benefit and to cooperate with Northrop Grumman in these matters. Should Boeing restore your Boeing SERP Benefit and/or the J&S Benefit at any time after ceasing to pay, you agree that the obligations of Northrop Grumman under this Section will end upon the resumption of payments from Boeing; provided, however, Northrop Grumman's obligations under this Section 14 shall resume in the event that Boeing thereafter suspends or terminates payment of your Boeing SERP Benefit as a result of your employment with Northrop Grumman.

15. Compliance with Section 409A.

The payments due in connection with this offer shall be adjusted as minimally necessary so as to achieve compliance with Section 409A. The Company will apply any such adjustments to you in a manner consistent with any comparable adjustments being made in the compensation arrangements of other members of the CPC; provided, however, that with respect to the Special 2007 RSRs, such adjustment shall not adversely affect the economic value intended by the parties in awarding such RSRs hereunder (and such treatment of the Special 2007 RSRs shall not be inferred to (1) limit the Company's right to decrease or otherwise adjust any other award or payment to you affected by Section 409A provided that the treatment of your other awards and payments is consistent with the awards held by and payments to CPC members generally, and (2) limit the Company's right to reduce the opportunities that you might otherwise have to voluntarily defer compensation pursuant to any deferred compensation plan maintained by the Company).

16. Company's Right to Change Policies and Plans.

Nothing in this offer letter affects or limits the Company's right to amend or terminate its compensation and benefit policies and plans, including without limitation the AIP, the LTISP, the Grant Certificates, the executive perquisites, the CPC SERP, the Executive Medical Plan, the SORMP, the March 2004 Special Agreement, the relocation policy, or the VP Severance Plan; provided, however, that that you will be treated no less favorably than other Corporate Vice Presidents generally in the event of such amendment or termination; and provided further, that no such amendment or termination shall adversely affect your entitlement to the Visteon Present Value under Section 5 or your entitlements under Sections 11, 12, 13 and 14 of this letter agreement.

Jim, the above is a summary of the key compensation and benefit provisions of this offer. This offer is subject to approval by the Northrop Grumman Corporation's Board of Directors. If you conditionally accept the terms of this offer letter, it will be presented to the Board and will become effective if (and only if) the Board approves it. We understand that your acceptance will become unconditional and effective and you will tender your notice of resignation

with Visteon within 24 hours after receipt of notice from us of Board approval. In addition, your employment will be subject to the normal pre-employment steps applicable to other new hires at Northrop Grumman. As is true for other Northrop Grumman employees, your employment with the Company will be on an "at will" basis, except that your right to severance benefits will be as provided above in Section 10.

If you are in agreement with the terms of this offer, please sign and date this letter below and return it to me. I look forward to having you join our senior management team. Consistent with our recent discussion, I am assuming that you will be able to start with us on March 12.

Sincerely yours,

/s/ Ian Ziskin
Ian Ziskin
Corporate Vice President and Chief Human Resources and Administrative Officer

AGREED TO:

/s/ James F. Palmer
James F. Palmer

DATED:

February 3, 2007

Exhibit 10(5)

NORTHROP GRUMMAN CORPORATION
SPECIAL OFFICER RETIREE MEDICAL PLAN
(As Amended and Restated Effective April 1, 2007)

ARTICLE 1 INTRODUCTION

1.01 Purpose. The purpose of the Northrop Grumman Corporation 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 29 CFR section 2520.104-24 and Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 (“ERISA”).

1.02 Substantive Benefits. This document describes the standard eligibility provisions and terms of coverage under the Plan. The actual medical benefit coverage will be provided pursuant to the terms of the Northrop Grumman Executive Medical Plan (“Executive Medical Plan”) as amended from time to time.

ARTICLE 2 DEFINITIONS

2.01 Board. The Company’s Board of Directors.

2.02 Committee. The Compensation and Management Development Committee of the Board.

2.03 Continuation Coverage. Coverage under the Plan that, as of the time the coverage is provided, is identical to the coverage as provided under the Plan to similarly situated persons with respect to whom a Qualifying Event has not occurred.

2.04 Continuation Coverage Election Period. The period beginning on the date of the Qualifying Event and ending sixty (60) days after the later of (a) the date the Qualified Beneficiary would lose coverage on account of a Qualifying Event, or (b) the date that the Qualified Beneficiary is provided with notice of his or her right to elect Continuation Coverage.

2.05 Grandfathered Participants. Participants who were actively employed by the Company on September 30, 2003.

2.06 Participant. An elected officer of the Company who is designated by the Board or the Committee as eligible to participate in the Plan.

2.07 Prior Plan. The Northrop Grumman Special Officer Retiree Medical Plan as in effect prior to October 1, 2003.

2.08 Qualified Beneficiary. A Vested Participant’s spouse or dependent who, on the day before a Qualifying Event, is covered under the Plan. In the case of a Qualifying Event described in subsection 2.09(iv) below, Qualified Beneficiary means a Vested Participant

who had retired on or before the date of substantial elimination of coverage and any person who on the day before the Qualifying Event is the spouse or Surviving Spouse of the retired Vested Participant or a covered dependent child of the retired Vested Participant or Surviving Spouse.

2.09 Qualifying Event. Any of: (i) the death of a retired Vested Participant, but only with respect to a beneficiary who is not the Surviving Spouse of the retired Vested Participant; (ii) the divorce or legal separation of a retired Vested Participant from his spouse; (iii) a dependent child ceasing to be eligible for coverage as dependent child of a retired Vested Participant under the dependent eligibility provisions of the Executive Medical Plan; or (iv) a proceeding in a case under Title 11 of the United States Code with respect to the Company; provided, however, that any such event will be a Qualifying Event only if it will cause the Qualified Beneficiary an immediate or deferred loss of coverage under the Plan. For purposes of this subsection, a loss of coverage means to cease to be eligible for benefits under the Plan under the same terms and conditions as in effect immediately before the Qualifying Event. A loss of coverage will be considered a deferred loss of coverage for purposes of this provision if the loss of coverage does not occur at the time of the Qualifying Event but occurs before the end of what would be the maximum period of Continuation Coverage under section 8.04 below. In the case of a Qualifying Event described in (iv), a loss of coverage includes a substantial elimination of coverage with respect to a Qualified Beneficiary within one year before or after the date of commencement of the bankruptcy proceeding.

2.10 Retired Participants. Vested Participants who retired and commenced benefits under the Plan prior to October 1, 2003.

2.11 Surviving Spouse. The individual to whom the Vested Participant is legally married under applicable State law at the time of the Vested Participant's death.

2.12 Vested Participant. A Participant with either five years of Vesting Service as an elected officer or 30 years of total service with the Company and its affiliates.

2.13 Vesting Service. Vesting Service is service performed while eligible to participate in the Plan. The Board or the Committee may, in its discretion, grant Vesting Service outright or designate other types of service as Vesting Service. Such grants or designations will be set forth in an Appendix to this Plan.

ARTICLE 3 ELIGIBILITY AND BENEFITS

3.01 Eligibility. Eligibility for the Plan is limited to those elected officers of the Company who are designated as eligible to participate in the Plan by the Board or the Committee. The eligible spouse and dependents of a Vested Participant will be eligible for benefits under the Plan commencing at the same time the Vested Participant's benefits commence. Spouse and dependent eligibility will be determined in accordance with the terms of the Executive Medical Plan.

3.02 Revocation of Eligibility. The Board or Committee may revoke a non-Vested Participant's Plan eligibility without the Participant's consent. The Board or Committee may revoke a Vested Participant's or Surviving Spouse's Plan eligibility, provided that the Vested Participant or, after the Participant's death, his or her Surviving Spouse, consents to the revocation.

3.03 Automatic Cessation of Eligibility. A Participant who is not a Vested Participant will automatically cease to be a Participant under the Plan upon the earlier of the following: (i) the date the Participant terminates employment with the Company; or (ii) the date the Participant ceases to be an elected officer of the Company. However, the Board or the Committee may make provision for a Participant who ceases to be an elected officer of the Company, but does not terminate employment with the Company, to continue to accrue service credited toward becoming a Vested Participant. The spouse or dependent of a Participant will cease to be eligible for benefits under the Plan upon the earlier of the following: (i) the date the Participant ceases to be a Participant under the Plan; or (ii) the date the spouse or dependent ceases to be eligible in accordance with the terms of the Executive Medical Plan.

3.04 Plan Freeze. No elected officer whose date of election is effective after March 31, 2007 shall be designated as eligible to participate in the Plan. An elected officer who is a Participant as of March 31, 2007 may continue to earn Vesting Service after that date in accordance with the terms of the Plan.

ARTICLE 4 COMMENCEMENT OF BENEFITS AND COSTS

4.01 Commencement of Benefits. Benefits for Vested Participants commence at retirement from the Company at age 65 or later.

4.02 Early Commencement of Benefits. If a Vested Participant has attained the age of 55 and has at least ten years of Vesting Service, such Vested Participant may elect to commence benefits coincident with retirement from the Company before age 65. If the election to commence is not made at the time of retirement, the Vested Participant and his or her dependents cease to be eligible for the Plan. No subsequent election to commence benefits will be allowed.

4.03 Surviving Spouse Benefit. If a Vested Participant dies before retiring from the Company, the Vested Participant's Surviving Spouse may elect to commence benefits as of the first of the month coincident with or after the Vested Participant would have attained age 65 or, if the Vested Participant had ten years of Vesting Service at the time of death, as of the first of the month coincident with or after the Vested Participant would have attained age 55.

4.04 Duration of Benefits. Subject to the Company's right to amend or terminate the Plan (as limited by subsection 6.01(b)), coverage under the Plan will be provided for the life of the Vested Participant and the life of his or her Surviving Spouse, if any. 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, subject to ARTICLE 8.

4.05 Coverage Provided. This medical coverage will be provided pursuant to the terms of the Executive Medical Plan, as such Executive Medical Plan is modified from time to time for active executives.

4.06 Medicare. A Vested Participant, spouse or Surviving Spouse must enroll in Medicare Parts A and B when first eligible in order to receive benefits under this Plan. If he or she fails to enroll, coverage under this Plan will cease upon the date the Vested Participant, spouse or Surviving Spouse first becomes eligible for Medicare Parts A and B.

4.07 Costs of Coverage.

(a) The Vested Participant (or Surviving Spouse, following the death of a Vested Participant) will be responsible for any participant cost items, such as contributions toward the cost of coverage, copayments, and deductibles, as determined by the Company in its discretion and described in the Executive Medical Plan; provided, however, that subject to subsection (b) below, the level of participant contributions toward the cost of coverage will be frozen as of the date the Vested Participant commences benefits under this Plan.

(b) A Vested Participant's or Surviving Spouse's contribution toward the cost of coverage may vary based on the level of coverage (one-person, two or more persons, etc.) in effect.

4.08 Cessation of Coverage. Eligibility for the continuation of executive medical benefits pursuant to the Plan will 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 in accordance with procedures established by the Company.

ARTICLE 5 SPECIAL COVERAGE PROVISIONS

5.01 Retired Participants. Retired Participants were given the opportunity to elect to be covered under the terms of this Plan (effective January 1, 2004) or to continue to be covered under the terms of the Prior Plan. Retired Participants who elected to be covered by the Prior Plan will be covered under and subject to the terms of the Prior Plan attached hereto as Exhibit A and their required contributions for coverage will be equal to their required contribution under the Prior Plan as of October 1, 2003.

5.02 Grandfathered Participants. Grandfathered Participants have the right, if otherwise eligible for the Plan at the time of retirement, to elect to be covered under the terms of the Prior Plan or the Plan as in effect at the time of such Participant's retirement. A Grandfathered Participant who elects to be covered under the terms of the Prior Plan will pay contributions for coverage equal to the rate in effect as of September 30, 2003. Such election will be made pursuant to forms and procedures specified by the Company.

ARTICLE 6 CHANGE IN CONTROL

6.01 Effect of 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 the time of the event), each of the following will occur:

(a) The Participant will 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 Executive Medical Plan will be frozen as of the date of the change in control.

ARTICLE 7 CLAIMS AND APPEALS PROCEDURES

A claim or appeal relating to medical benefits under the Plan will be subject to the claims and appeals procedures set forth in the Executive Medical Plan. A claim or appeal relating to eligibility to participate in the Plan, status as a Vested Participant, required contributions or any other claim or appeal that is not a claim or appeal relating to a medical benefit under the Plan will be subject to the claims and appeals procedures set forth in the Executive Medical Plan, except that such claims will be decided by the Vice President, Compensation, Benefits and HRIS, or his or her delegate, who will be the claims administrator and the appropriate named fiduciary with respect to such claims.

ARTICLE 8 CONTINUATION OF COVERAGE

8.01 General. In addition to the Surviving Spouse coverage described above, temporary continued coverage under the Plan may be purchased after the date coverage would ordinarily terminate under the Plan as a result of a Qualifying Event.

8.02 Participant/Beneficiary Notice Requirements. In the case of the Qualifying Events described in subsections 2.09(ii) and (iii) above, the retired Vested Participant or his or her spouse or dependent must provide notice of the occurrence of the Qualifying Event not later than 60 days after the occurrence. Such notice must be provided to the COBRA administrator for the Executive Medical Plan.

8.03 Availability of Continuation Coverage. Upon the occurrence of a Qualifying Event, each Qualified Beneficiary will be offered an opportunity to purchase continuation coverage under the Plan. The election to purchase Continuation Coverage must be made during the Continuation Coverage Election Period in such form and manner as the Company prescribes. A Qualified Beneficiary who fails to elect Continuation Coverage during the Continuation Coverage Election Period following a Qualifying Event will not be entitled to elect Continuation Coverage with respect to such Qualifying Event.

8.04 Period of Continuation Coverage. Continuation Coverage as elected by the Qualified Beneficiary will extend for the period beginning on the date of loss of coverage as a result of the Qualifying Event and ending on the earliest of the following dates:

(a) If the Qualifying Event was divorce or legal separation, death of the retired Vested Participant, or loss of dependent child status, 36 months after the date Continuation Coverage began;

(b) If the Qualifying Event was a proceeding in a case under Title 11 of the United States Code: (i) for a Qualified Beneficiary who is the retired Vested Participant, the retired Vested Participant's date of death; (ii) for a Qualified Beneficiary who is the Surviving Spouse or dependent child of the retired Vested Participant, 36 months after the date of death of the retired Vested Participant;

(c) The first day for which timely payment for Continuation Coverage is not made with respect to the Qualified Beneficiary as provided in section 8.05 below;

(d) The date upon which the Company ceases to maintain any group health plan;

(e) The date upon which the Qualified Beneficiary first becomes covered under another group health plan after the date Continuation Coverage is elected; provided, Continuation Coverage will not terminate if the other group health plan contains an exclusion or limitation with respect to any preexisting condition that affects the Qualified Beneficiary, unless that limitation or exclusion does not apply to the Qualified Beneficiary because of the requirements of the Health Insurance Portability and Accountability Act of 1996;

(f) The date that the Qualified Beneficiary first becomes entitled to Medicare benefits under Title XVIII of the Social Security Act after the date Continuation Coverage is elected.

Notwithstanding anything herein to the contrary, the Company may terminate the Continuation Coverage of a Qualified Beneficiary on the same basis that the Company terminates coverage under the Plan for a similarly situated Participant with respect to whom a Qualifying Event has not occurred.

8.05 Payment for Continuation Coverage.

(a) Each Qualified Beneficiary who has elected to purchase Continuation Coverage will make a monthly payment to the Company in an amount up to 102% of the applicable premium determined in accordance with Internal Revenue Code Section 4980B(f)(4).

(b) The payment for the period of Continuation Coverage beginning on the date a Qualified Beneficiary would otherwise lose coverage as a result of a Qualifying Event and ending on the last day of the month during which the Qualified Beneficiary elects Continuation Coverage will be due on the date the Qualified

Beneficiary elects Continuation Coverage and payment made within forty-five (45) days of such date will be deemed timely payment. The monthly payments for the remainder of the period of Continuation Coverage will be due as of the first day of the month for which the coverage is provided and payment made within thirty (30) days of the due date for each monthly installment will be deemed timely payment.

ARTICLE 9 GENERAL PROVISIONS

9.01 Amendment and Plan Termination. Except as provided in ARTICLE 6, the Company may amend or terminate the Plan at any time for any reason. No amendment or termination of the Plan will affect the terms of the Prior Plan with respect to: (i) a Grandfathered Participant who as of the date of such amendment or termination has not retired; (ii) a Grandfathered Participant who as of the date of such amendment or termination has retired and elected to be covered under the terms of the Prior Plan; or (iii) a Retired Participant who elected to be covered under the terms of the Prior Plan.

9.02 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.

9.03 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.

9.04 Medicare Primary. Medicare coverage is primary to coverage offered pursuant to the Plan. Plan coverage will be secondary to Medicare to the maximum extent permissible under law.

9.05 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.

9.06 Construction. The Committee will 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.

9.07 Governing Law. This Plan will be governed by the law of the State of California, except to the extent superseded by federal law.

9.08 Actions By Company. Any powers exercisable by the Company under the Plan will be exercised by written resolution adopted by the Board, the Committee or the delegate of either. The Board or 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.

9.09 Non-Standard Provisions. The Board or Committee may in their discretion apply eligibility requirements or terms of coverage other than the standard provisions with respect to an individual. Any such nonstandard terms shall be stated in Appendix A.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora Catsavas
Vice President, Compensation, Benefits and HRIS

Date: 4/17/07

APPENDIX A

Special Provisions Applicable to Sandra J. Wright

Notwithstanding her change to the position of Vice President, Financial Planning and Analysis (an appointed officer position) effective April 20, 2005, Sandra J. Wright will continue to be considered a Participant for purposes of the Plan and her service with the Company after that date will be taken into account under the Plan for purposes of determining whether she is considered a Vested Participant under the Plan.

Special Provision Applicable to Thomas C. Schievelbein

Effective as of November 1, 2004, Thomas C. Schievelbein will be considered a Vested Participant under the Plan.

Special Provision Applicable to Jerry Agee

Effective as of April 1, 2007, Jerry Agee will be considered a Vested Participant under the Plan.

Special Provision Applicable to James L. Sanford

Effective as of April 1, 2007, James L. Sanford will be considered a Vested Participant under the Plan.

Exhibit 15

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

April 23, 2007

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended March 31, 2007 and 2006, as indicated in our report dated April 23, 2007; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290, and 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

Exhibit 31.1

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

I, Ronald D. Sugar, certify that:

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

Date: April 24, 2007

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

Exhibit 31.2

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

I, James F. Palmer, certify that:

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

Date: April 24, 2007

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

Exhibit 32.1

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ending March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ronald D. Sugar, Chairman and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: April 24, 2007

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

Exhibit 32.2

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ending March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: April 24, 2007

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