

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

**FORM 10-K**

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

For the year ended December 31, 2004

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

For the transition period from  
to

Commission file number  
1-16411

**NORTHROP GRUMMAN CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**95-4840775**  
(I.R.S.  
Employer  
Identification  
Number)

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

**www.northropgrumman.com**

(Address of principal executive offices and internet site)

**(310) 553-6262**

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$1 par value

New York Stock Exchange  
Pacific Exchange

Series B Convertible Preferred Stock

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Yes

No

As of June 30, 2004, 357,959,403 shares of Common Stock were outstanding, and the aggregate market value of the Common Stock (based upon the closing price of the stock on the New York Stock Exchange) of the registrant held by nonaffiliates was approximately \$19,222 million.

As of March 1, 2005, 360,265,907 shares of Common Stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders. Part III

## NORTHROP GRUMMAN CORPORATION

## Table of Contents

		<u>Page</u>
	<b><u>Part I</u></b>	
Item 1.	<a href="#">Business</a>	1
Item 2.	<a href="#">Properties</a>	10
Item 3.	<a href="#">Legal Proceedings</a>	11
Item 4.	<a href="#">Submission of Matters to a Vote of Security Holders</a>	12
	<b><u>Part II</u></b>	
Item 5.	<a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	12
Item 6.	<a href="#">Selected Financial Data</a>	13
Item 7.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	15
	<a href="#">Overview</a>	15
	<a href="#">Organization, Products, and Services</a>	18
	<a href="#">Businesses Acquired</a>	25
	<a href="#">Businesses Sold and Discontinued Operations</a>	25
	<a href="#">Contracts</a>	26
	<a href="#">Critical Accounting Policies, Estimates, and Judgments</a>	28
	<a href="#">Management Financial Measures</a>	32
	<a href="#">Segment Operating Results</a>	32
	<a href="#">Non-Segment Factors Affecting Operating Margin</a>	41
	<a href="#">Other Income Statement Components</a>	43
	<a href="#">Backlog</a>	45
	<a href="#">Liquidity and Capital Resources</a>	47
	<a href="#">Other Matters</a>	52
	<a href="#">Forward Looking Statements and Important Risk Factors</a>	53
Item 7A.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	54
Item 8.	<a href="#">Financial Statements and Supplementary Data</a>	56
	<a href="#">Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</a>	56
	<a href="#">Consolidated Statements of Financial Position</a>	57
	<a href="#">Consolidated Statements of Income</a>	59
	<a href="#">Consolidated Statements of Comprehensive Income (Loss)</a>	60
	<a href="#">Consolidated Statements of Cash Flows</a>	61
	<a href="#">Consolidated Statements of Changes in Shareholders’ Equity</a>	63
	<a href="#">Notes to Consolidated Financial Statements</a>	64
	<a href="#">1. Summary of Significant Accounting Policies</a>	64
	<a href="#">2. New Accounting Standards</a>	68
	<a href="#">3. Stock Split and Common Stock Dividend</a>	69
	<a href="#">4. Businesses Acquired</a>	69
	<a href="#">5. Businesses Sold and Discontinued Operations</a>	70
	<a href="#">6. Segment Information</a>	71
	<a href="#">7. Earnings Per Share</a>	76
	<a href="#">8. Accounts Receivable, Net</a>	77
	<a href="#">9. Inventoried Costs, Net</a>	78
	<a href="#">10. Goodwill and Other Purchased Intangible Assets</a>	79
	<a href="#">11. Fair Value of Financial Instruments</a>	80
	<a href="#">12. Income Taxes</a>	82
	<a href="#">13. Notes Payable to Banks and Long-Term Debt</a>	84
	<a href="#">14. Mandatorily Redeemable Series B Convertible Preferred Stock</a>	85
	<a href="#">15. Retirement Benefits</a>	86

## Table of Contents

	<b>Page</b>
	<u>16. Litigation, Commitments, and Contingencies</u> 91
	<u>17. Stock Compensation Plans</u> 93
	<u>18. Derivative Financial Instruments and Hedging Activities</u> 94
	<u>19. Unaudited Selected Quarterly Data</u> 95
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 97
Item 9A.	<u>Controls and Procedures</u> 97
	<u>Management's Report on Internal Control Over Financial Reporting</u> 98
	<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u> 99
Item 9B.	<u>Other Information</u> 100
<b><u>Part III</u></b>	
Item 10.	<u>Directors and Executive Officers of the Registrant</u> 100
Item 11.	<u>Executive Compensation</u> 102
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 102
Item 13.	<u>Certain Relationships and Related Transactions</u> 102
Item 14.	<u>Principal Accountant Fees and Services</u> 102
<b><u>Part IV</u></b>	
Item 15.	<u>Exhibits and Financial Statement Schedules</u> 103
	<u>Signatures</u> 109
	<u>Schedule II-Valuation and Qualifying Account</u> 110

**NORTHROP GRUMMAN CORPORATION**

**PART I**

**Item 1. Business**

Northrop Grumman Corporation (Northrop Grumman or the company) provides technologically advanced, innovative products, services, and solutions in defense and commercial electronics, nuclear and non-nuclear shipbuilding, information technology, mission systems, systems integration, and space technology. As 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. The majority of the company's products and services are ultimately sold to the U.S. Government and the company is therefore affected by, among other things, the federal budget process.

**History**

Originally formed in California in 1939, Northrop Corporation was reincorporated in Delaware in 1985. In 1994, the company purchased the outstanding common stock of Grumman Corporation and, effective May 18, 1994, Northrop Corporation was renamed Northrop Grumman Corporation. On April 2, 2001, NNG, Inc., a newly formed Delaware holding company, exchanged its common shares for all of the outstanding Northrop Grumman Corporation common shares on a one-for-one basis, through a merger in which Northrop Grumman Corporation became a subsidiary of NNG, Inc. In connection with this merger, NNG, Inc. changed its name to Northrop Grumman Corporation and the former Northrop Grumman Corporation changed its name to Northrop Grumman Systems Corporation.

In 2001, the company purchased Litton Industries, Inc. (Litton), the Electronics and Information Systems Group of Aerojet-General Corporation (EIS), and 80.7 percent of Newport News Shipbuilding Inc. (Newport News). On January 18, 2002, the company acquired the remaining common shares of Newport News.

On December 11, 2002, the company issued 139 million shares in exchange for all outstanding shares of TRW Inc. (TRW), which consisted of two defense related businesses and an automotive business (Auto). This transaction was valued at approximately \$12.5 billion, including the assumption of TRW's debt of \$4.8 billion. On February 28, 2003, the company sold Auto to The Blackstone Group for \$3.3 billion in cash; a \$600 million face value payment-in-kind note, initially valued at \$455 million; and a 19.6 percent interest in the new enterprise, initially valued at \$170 million. The acquirer also assumed debt of approximately \$200 million. The cash received from the sale of Auto was adjusted from the sale agreement amount by cash sold with the business, preliminary purchase price adjustments, and an asset retained. Cash proceeds from the sale were primarily used to reduce debt. In January 2004, the restrictions on the investment in Auto were amended to provide the company more flexibility in monetization. In February 2004, the company's investment in Auto was diluted to 17.2 percent as a result of Auto's initial public offering. On October 10, 2004, the company reached an agreement with TRW Automotive Holdings Corp. to sell the payment-in-kind note and settle certain other contractual issues arising from the Auto sale. For additional information see Note 5 to the Consolidated Financial Statements in Part II, Item 8.

In connection with the acquisition of TRW, the company entered into a formal stipulation and consent decree with the U.S. Department of Justice that was filed in the U. S. District Court for the District of Columbia on December 11, 2002. Key provisions of the consent decree are intended to assure that the merger will not impede fair and open competition related to certain electronic satellite payloads. The consent decree does not require the divestiture of any businesses and permits the company to operate its businesses and those of TRW as planned.

During the third quarter of 2002, the company concluded that the Component Technologies (CT) businesses, which were acquired as part of the Litton acquisition, did not fit with the company's long-term plans and decided to sell these businesses. Accordingly, the businesses comprising the CT segment were classified as discontinued operations beginning in the third quarter of 2002. The company sold three of the CT businesses in 2003 and a

## **NORTHROP GRUMMAN CORPORATION**

fourth CT business in 2004. None of these sales, either individually or in the aggregate, had a material effect on the company's financial position or results of operations. The three remaining CT businesses consist of a manufacturer of complex printed circuit boards, an electronic connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these businesses. Accordingly, the assets, liabilities, and results of operations of these businesses have been reclassified from discontinued to continuing operations for all periods presented. These businesses are reported under the segment entitled "Other."

### **Summary Segment Financial Data**

In the following table of segment and major customer data, revenue from the U.S. Government includes revenue from contracts for which Northrop Grumman is the prime contractor, as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. The company's discontinued operations are excluded from all of the data elements in this table, except for assets by segment. The 2002 income statement does not include TRW's post-acquisition results as they were not material. TRW backlog acquired and assets at December 31, 2002, are included in the following table. The following are certain factors to be considered when analyzing the segment financial data presented below.

*Foreign Sales* – Foreign sales amounted to approximately \$1.6 billion, \$1.8 billion, and \$1.4 billion, or 5.3 percent, 6.7 percent, and 8.1 percent of total revenue for the years ended December 31, 2004, 2003, and 2002, respectively. All of the company's segments engage in international business, for which the company retains a number of sales representatives and consultants who are not employees of the company. Foreign sales by their very nature are subject to greater variability in risk than the company's domestic sales, particularly to the U.S. Government. International sales and services subject the company to numerous stringent U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act, and the anti-boycott provisions of the U.S. Export Administration Act. Failure by the company or its sales representatives or consultants to comply with these laws and regulations could result in administrative, civil, or criminal liabilities and could in the extreme case result in suspension or debarment from government contracts or suspension of the company's export privileges, which could have a material adverse effect on the company.

*Unallocated Expenses* – The reconciling item captioned "Unallocated expenses" includes the portion of corporate, legal, environmental, state income tax, other retiree benefits, and other expenses not considered allowable under Cost Accounting Standards (CAS) and not allocated to the segments.

*Pension* – Pension expense is included in the segments' cost of sales to the extent that these costs are recognized under CAS. In order to reconcile from segment operating margin to total operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above." Total pension (expense) income, determined in accordance with accounting principles generally accepted in the United States of America, is reported separately as a reconciling item under the caption "Pension (expense) income."

*Goodwill* – During the second quarter of 2002, the company completed the first step of the required initial test for potential impairment of goodwill as of January 1, 2002. The company used a discounted cash flow approach, corroborated by comparative market multiples, where appropriate, to determine the fair value of its reporting units. The results indicated potential impairment only in the reporting units of the CT businesses due to unfavorable market conditions. Accordingly, the company recorded a non-cash charge of \$432 million, or \$1.84 per diluted share, which is reported as "Cumulative effect of accounting change." In 2002 and 2003, the company recorded non-cash charges of \$186 million, or \$.79 per diluted share, and \$47 million, or \$.13 per diluted share, respectively, for further impairment of the goodwill in the CT businesses. These impairments were determined based on the excess of the net carrying value of these businesses' net assets in comparison to the then current negotiated sale prices for each individual business.

## **NORTHROP GRUMMAN CORPORATION**

*Discontinued Operations* – During the third quarter of 2002, the company announced its intention to sell the businesses comprising its CT segment. As a result, these businesses were classified as discontinued operations beginning in the third quarter of 2002. Since that announcement, the company has sold all but three of the CT businesses. The remaining operations consist of a manufacturer of complex printed circuit boards, an electronic connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these businesses. Accordingly, the assets, liabilities, and results of operations of these businesses have been reclassified from discontinued to continuing operations for all periods presented. These businesses are reported under the segment entitled “Other.” For additional information, see Notes 5 and 6 to the Consolidated Financial Statements in Part II, Item 8.

*Realignment* – Effective January 1, 2004, the company realigned businesses among three of 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 information systems and services. Mission Systems’ Global Information Technology, Civil Systems, and Mission Systems Europe businesses were transferred to the Information Technology segment. Prior to January 1, 2004, the three business areas comprised Mission Systems’ Federal & Civil Information Systems business. The Defense Mission Systems (DMS) business within the Information Technology segment was transferred to the Mission Systems segment. Prior to January 1, 2004, DMS was contained within Information Technology’s Government Information Technology business. The Command, Control & Intelligence Systems business area of the Missions Systems segment transferred its Unmanned Air Vehicle business to the Air Combat Systems business area within the Integrated Systems segment. This realignment resulted in a decrease in 2003 sales of \$104 million for the Information Technology sector, an increase of \$57 million for the Mission Systems sector, and an increase of \$47 million for the Integrated Systems sector. For 2002, this realignment resulted in a decrease in sales of \$764 million for the Information Technology sector and an increase of \$764 million for the Mission Systems sector. For comparative purposes, all segment financial information contained within this Form 10-K has been restated to reflect this realignment.

Effective January 1, 2005, the company transferred management responsibility for two of the three remaining CT businesses to the Electronic Systems segment. These businesses consist of a manufacturer of complex printed circuit boards and an electronic connector manufacturer. The effect of this realignment on the Electronic Systems segment’s sales and operating margin is not significant.

*Reclassifications* – Certain amounts for 2003 and 2002 have been reclassified to conform to the 2004 presentation.

[Table of Contents](#)
**NORTHROP GRUMMAN CORPORATION**
**RESULTS OF OPERATIONS BY SEGMENT AND MAJOR CUSTOMER**

	Year ended December 31		
<i>\$ in millions</i>	2004	2003	2002
<b>Sales and Service Revenues</b>			
<b>Electronic Systems</b>			
United States Government	\$ 3,761	\$ 3,481	\$ 2,959
Other customers	2,190	2,199	2,114
Intersegment sales	466	359	253
	<b>6,417</b>	<b>6,039</b>	<b>5,326</b>
<b>Ships</b>			
United States Government	6,108	5,276	4,445
Other customers	142	174	251
Intersegment sales	2	1	1
	<b>6,252</b>	<b>5,451</b>	<b>4,697</b>
<b>Information Technology</b>			
United States Government	4,102	3,824	2,971
Other customers	778	741	464
Intersegment sales	171	86	41
	<b>5,051</b>	<b>4,651</b>	<b>3,476</b>
<b>Mission Systems</b>			
United States Government	4,359	3,785	736
Other customers	283	132	9
Intersegment sales	305	255	19
	<b>4,947</b>	<b>4,172</b>	<b>764</b>
<b>Integrated Systems</b>			
United States Government	4,486	3,638	3,096
Other customers	204	181	161
Intersegment sales	52	28	16
	<b>4,742</b>	<b>3,847</b>	<b>3,273</b>
<b>Space Technology</b>			
United States Government	3,148	2,718	
Other customers	63	57	
Intersegment sales	58	48	
	<b>3,269</b>	<b>2,823</b>	
<b>Other</b>			
United States Government	2		
Other customers	227	190	200
Intersegment sales	1	1	
	<b>230</b>	<b>191</b>	<b>200</b>
Intersegment eliminations	<b>(1,055)</b>	<b>(778)</b>	<b>(330)</b>
Total revenue	<b>\$29,853</b>	<b>\$26,396</b>	<b>\$17,406</b>
<b>Operating Margin</b>			
Electronic Systems	\$ 670	\$ 590	\$ 434
Ships	389	295	306
Information Technology	301	269	191
Mission Systems	321	266	59
Integrated Systems	412	384	331
Space Technology	222	193	
Other	(3)	(74)	(271)
Non-segment factors affecting operating margin			
Unallocated expenses	(282)	(137)	(105)
Pension (expense) income	(350)	(568)	90
Reversal of CAS pension expense included above	338	265	100
Reversal of royalty income included above	(12)	(15)	(15)
Total operating margin	<b>\$ 2,006</b>	<b>\$ 1,468</b>	<b>\$ 1,120</b>

**NORTHROP GRUMMAN CORPORATION**

	Year ended December 31		
<i>\$ in millions</i>	2004	2003	2002
<b>Contract Acquisitions</b>			
Electronic Systems	\$ 6,706	\$ 6,018	\$ 5,930
Ships	5,668	4,839	5,286
Information Technology	5,300	4,854	4,140
Mission Systems	5,209	4,878	2,965
Integrated Systems	5,135	4,380	3,515
Space Technology	3,460	3,073	1,308
Other	216	187	194
Intersegment eliminations	(1,207)	(1,023)	(286)
Total contract acquisitions	\$30,487	\$27,206	\$23,052
<b>Capital Expenditures</b>			
Electronic Systems	\$ 146	\$ 173	\$ 263
Ships	220	136	76
Information Technology	29	30	45
Mission Systems	25	28	
Integrated Systems	111	158	134
Space Technology	123	105	
Other	3	2	7
General corporate	15	5	3
Total capital expenditures	\$ 672	\$ 637	\$ 528
<b>Depreciation and Amortization</b>			
Electronic Systems	\$ 245	\$ 229	\$ 226
Ships	148	142	147
Information Technology	51	47	44
Mission Systems	56	60	
Integrated Systems	94	86	78
Space Technology	132	115	
Other	2		21
General corporate	6	3	1
Total depreciation and amortization	\$ 734	\$ 682	\$ 517
	December 31,		
<i>\$ in millions</i>	2004	2003	
<b>Assets</b>			
Electronic Systems	\$ 5,761	\$ 5,660	
Ships	6,521	6,482	
Information Technology	3,467	3,386	
Mission Systems	5,121	5,188	
Integrated Systems	2,201	2,210	
Space Technology	4,625	4,717	
Other	82	173	
Segment assets	27,778	27,816	
General corporate	5,583	5,206	
Total assets	\$33,361	\$33,022	
<b>Funded Backlog</b>			
Electronic Systems	\$ 6,757	\$ 6,468	
Ships	9,165	9,749	
Information Technology	2,568	2,319	
Mission Systems	3,167	2,905	
Integrated Systems	4,691	4,298	
Space Technology	1,749	1,558	
Other	49	62	
Intersegment eliminations	(584)	(431)	
Total funded backlog	\$27,562	\$26,928	



## **NORTHROP GRUMMAN CORPORATION**

### **Organization, Products, and Services**

The company operates in seven business sectors: Electronic Systems, Newport News, Ship Systems, Information Technology, Mission Systems, Integrated Systems, and Space Technology. For financial reporting purposes, the Electronic Systems, Information Technology, Mission Systems, Integrated Systems, and Space Technology sectors are each reportable segments. In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131 – *Disclosures about Segments of an Enterprise and Related Information*, Newport News and Ship Systems are aggregated and reported as the Ships segment.

*Electronic Systems* – Electronic Systems is a leading designer, developer, and manufacturer of a wide variety of advanced defense electronics and systems. Electronic Systems provides airborne radar systems, secondary surveillance systems, inertial navigation systems and sensors, electronic warfare systems, precision weapons, air traffic control systems, air defense systems, communications systems, space systems, marine systems, oceanic and naval systems, integrated avionics systems, and automation and information systems. Headquartered in Linthicum, Maryland, the sector includes Aerospace Systems; Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) & Naval Systems; Defensive Systems; Navigation Systems; and Space Systems divisions. Operations not included in these divisions are reported as “Defense Other.” Key products include fire control radars for the F-16, F/A-22 and F-35 fighter aircraft, as well as for the Longbow Apache helicopter. Other principal products include the Airborne Warning and Control System (AWACS) radar, the 737 airborne early warning and control system, Joint Surveillance Target Attack Radar System (Joint STARS) air-to-ground surveillance radar sensor, Longbow Hellfire missile, tactical military radars, countrywide air defense systems, airborne electronic countermeasures systems, sophisticated undersea warfare systems, and naval propulsion and power generation systems. Electronic Systems has 120 locations worldwide, including 72 international offices, and approximately 24,000 employees.

*Newport News* – Newport News’ primary business is the design, construction, repair, maintenance, overhaul, life-cycle support, and refueling of nuclear-powered aircraft carriers and the design, life-cycle support, and construction of nuclear-powered submarines for the U.S. Navy. Newport News is the nation’s sole designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines. Major programs are the CVN 21 (next generation aircraft carrier), the Nimitz-class nuclear powered aircraft carriers, and the Virginia-class submarine program. The sector also provides after-market services for a wide array of naval and commercial vessels. Headquartered in Newport News, Virginia, the sector has approximately 19,500 employees.

*Ship Systems* – Ship Systems is one of the nation’s leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels of all types. Major programs for the U.S. Navy include the WASP LHD 1 Class and San Antonio LPD 17 Class amphibious assault ships, the Arleigh Burke DDG 51, and next generation DD(X) destroyers. The company is also a partner in the Coast Guard’s Deepwater modernization program. Major programs for the U.S. Coast Guard include the Maritime Security Cutter – Large (WMSL), the Maritime Security Cutter – Medium (WMSM), and the Maritime Coastal Patrol Cutter (WPC). Ship Systems also produces double-hulled crude oil tankers. Ship Systems is headquartered in Pascagoula, Mississippi, with primary operations in Pascagoula, Mississippi; New Orleans, Louisiana; Gulfport, Mississippi; and Tallulah, Louisiana, as well as in-fleet support offices in the U.S. and Japan. Ship Systems has approximately 19,700 employees.

*Information Technology* – Information Technology is a premier provider of advanced information technology (IT) solutions, engineering, and business services for government and commercial customers. The segment consists of four lines of business: Government Information Technology, Enterprise Information Technology, Commercial Information Technology, and Technology Services. Government Information Technology covers a wide range of large-scale systems integration, solutions, and services programs. This work is performed for government customers at the Department of Defense, federal, state, and local levels, and covers C4ISR, training and simulation, science

## **NORTHROP GRUMMAN CORPORATION**

and technology, and information systems markets. Enterprise Information Technology focuses on the delivery and integration of commercially available computers, networks, hardware, software, and peripherals to government and commercial customers. Commercial Information Technology provides complete IT outsourcing services directed at the commercial marketplace and also provides public safety and information services to state and local governments. Technology Services includes base and range support, training and simulation, and information systems. In addition, the sector provides IT services internally to all Northrop Grumman sectors. Headquartered in northern Virginia, Information Technology has approximately 18,500 employees in over 130 locations worldwide.

*Mission Systems* – Mission Systems is a leading global system integrator of complex, mission-enabling systems for government, military, and business clients. The organization's technology leadership spans three business areas: Command, Control & Intelligence Systems, Missile Systems, and Technical and Management Services. Products and services are focused on the fields of Command, Control, Communications, Computers and Intelligence (C4I), strategic missiles, missile and air defense, airborne reconnaissance, intelligence management and processing, electro-magnetic and infrared analysis, communications, and decision support systems. Headquartered in Reston, Virginia, Mission Systems has approximately 17,800 employees in more than 150 locations worldwide.

*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. Integrated Systems includes the Air Combat Systems, Airborne Early Warning and Electronic Warfare Systems, and Airborne Ground Surveillance and Battle Management Systems business areas. Integrated Systems is the prime contractor for the Joint STARS advanced airborne targeting and battle management system, Global Hawk, and B-2 Spirit stealth bomber. The sector has principal roles in the F/A-18 Hornet strike fighter and F-35 joint strike fighter programs. Integrated Systems is upgrading the EA-6B Prowler electronic countermeasures aircraft and produces the E-2C Hawkeye early warning aircraft. Headquartered in El Segundo, California, Integrated Systems has approximately 15,000 employees.

*Space Technology* – Space Technology develops and integrates a broad range of systems at the leading edge of space, defense, and electronics technology. The sector supplies products primarily to the U.S. Government that play an important role in 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 spacecraft systems and subsystems, electronic and communications payloads, advanced avionics systems, and high energy laser systems and subsystems. Headquartered in Redondo Beach, California, Space Technology has approximately 9,300 employees.

*Other* – The segment entitled "Other" includes the assets, liabilities, and results of operations of the three remaining CT businesses. These businesses consist of a manufacturer of complex printed circuit boards, a connector manufacturer, and a European-based marketing group. Effective January 1, 2005, two of these operations were integrated into, and reported under, the Electronic Systems segment. The European-based marketing group will continue to be reported under "Other." The effect of this realignment on the Electronic Systems segment's sales and operating margin is not significant. At December 31, 2004, the "Other" segment had 800 employees.

*Corporate* – The company's principal executive offices are located at 1840 Century Park East, Los Angeles, California 90067. Total corporate employees are approximately 800. The company's telephone number is (310) 553-6262. The company's home page on the Internet is [www.northropgrumman.com](http://www.northropgrumman.com). The company makes web site content available for information purposes, which is not incorporated by reference into this Form 10-K.

### **Customers and Revenue Concentration**

The company's primary customer is the U.S. Government. Revenue from the U.S. Government accounted for approximately 87 percent, 86 percent, and 82 percent of total revenues in 2004, 2003, and 2002, respectively. No other customer accounted for more than 10 percent of total revenue during any period presented. No product or service accounted for more than 10 percent of total revenue during any period presented.

## [Table of Contents](#)

### **NORTHROP GRUMMAN CORPORATION**

#### **Patents**

The following summarizes the approximate number of the company's patents as of December 31, 2004:

	Owned	Pending	Total
U.S patents	3,500	635	4,135
Foreign patents	2,100	1,700	3,800
Total	5,600	2,335	7,935

Patents developed while under contract with the U.S. Government may be subject to use or control by the customer. In addition, the company licenses intellectual property to, and from, third parties. Management believes the company's ability to conduct its operations would not be materially affected with the loss of any particular intellectual property right.

#### **Seasonality**

No material portion of the company's business is considered to be seasonal. The timing of revenue recognition is determined upon several factors including the timing of contract acquisitions, customer funding, the incurrence of contract costs, cost estimation, and unit deliveries. See "Revenue Recognition" in Part II, Item 7.

#### **Raw Materials**

The most significant raw material required by the company is steel used primarily for ship building. The company has mitigated supply risk by negotiating long-term agreements with a number of steel suppliers. In addition, the company has mitigated price risk related to its steel purchases through certain contractual arrangements with the U.S. Government. While the company has generally been able to timely obtain key raw materials required in its production processes, a significant delay in receipt of these supplies by the company could have a material adverse effect on the company's results of operations.

#### **Government Regulation**

The U.S. Government, and other governments, may terminate any government contract and, in general, subcontracts, at their convenience as well as for default based on performance. In the event of termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred subsequent to termination. The company is involved in a lawsuit concerning a contract terminated for convenience – see "Other Matters" in Part I, Item 3.

Certain programs with the U.S. Government that are prohibited by the customer from being publicly discussed in detail are referred to as "restricted" in this Form 10-K. The consolidated financial statements and financial information contained within this Form 10-K reflect the operating results of restricted programs under accounting principles generally accepted in the United States of America.

International business is subject to import-export control and local foreign statutes. Changes in regulation or political environment may affect the company's ability to conduct business in foreign markets including investment, procurement, and repatriation of earnings.

#### **Research and Development**

Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative costs and are allocated to U.S. Government contracts. Company-sponsored research and development expenses totaled \$504 million, \$429 million, and \$283 million in 2004, 2003, and 2002, respectively. Customer-sponsored research and development expenses are charged directly to the related contracts.

## **NORTHROP GRUMMAN CORPORATION**

### **Employee Relations**

The company believes that it maintains good relations with its 125,400 employees, of which approximately 20 percent are covered by 32 collective bargaining agreements. During 2004, the company successfully re-negotiated 14 collective bargaining agreements. The company currently expects to complete re-negotiation of 3 collective bargaining agreements in 2005. It is not expected that these negotiations will, either individually or in the aggregate, have a material adverse effect on the company's results of operations.

### **Environmental Matters**

Federal, state, and local laws relating to the protection of the environment affect the company's manufacturing operations. The company has provided for the estimated cost to complete remediation where the company has determined that it is probable that the company will incur such costs in the future to address environmental impact at current or formerly owned 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. It is difficult to estimate the timing and ultimate amount of environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup and the status of the law, regulations, and their interpretations.

In order to assess the potential impact on the company's financial statements, management estimates the possible remediation costs that reasonably could be incurred by the company on a site-by-site basis. Such estimates take into consideration the professional judgment of the company's environmental engineers and, when necessary, consultation with outside environmental specialists. In most instances, only a range of reasonably possible costs can be estimated. However, in the determination of accruals, the most probable amount is used when determinable and the minimum is used when no single amount is more probable. The company records accruals for environmental cleanup costs in the accounting period in which the company's responsibility is established and the costs can be reasonably estimated. The company does not anticipate and record insurance recoveries before collection is probable.

Management estimates that at December 31, 2004, the range of reasonably possible future costs for all environmental remediation sites is \$278 million to \$411 million, of which \$281 million has been accrued. Environmental accruals are recorded on an undiscounted basis. At sites involving multiple parties, the company provides environmental accruals based upon its expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. In addition, 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, which could have a material adverse effect on the company's financial position, results of operations, or cash flows. The company has made the investments it believes necessary in order to comply with environmental laws.

### **Available Information**

Throughout this Form 10-K, the company incorporates by reference information from parts of other documents filed with the Securities and Exchange Commission (SEC). The SEC allows the company to disclose important information by referring to it in this manner, and you should review this information.

The company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through the company web site as soon as reasonably practicable after electronic filing of such material with the SEC. You can learn more about the company by reviewing the company's SEC filings on the company web site. The company's SEC reports can be accessed through the investor relations page of the company web site at [www.northropgrumman.com](http://www.northropgrumman.com).

## **NORTHROP GRUMMAN CORPORATION**

The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding SEC registrants, including Northrop Grumman. The public may read and copy any materials filed by the company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

### **Item 2. Properties**

At December 31, 2004, the company had approximately 54 million square feet of floor space comprised of approximately 2,338 buildings/structures and land at 556 separate locations, primarily in the United States, for the purpose of manufacturing, warehousing, research and testing, administration and various other productive and facility uses. Of the total square footage at December 31, 2004, 56 percent was company-owned, 40 percent was leased, and 4 percent was government-owned or leased. At December 31, 2004, the company leased to other third parties approximately 961,000 square feet of its owned and leased facilities, and had vacant floor space of approximately 1.14 million square feet in the process of being disposed.

At December 31, 2004, the business operating segments had major operations at the following locations:

**Electronic Systems** – Huntsville, AL; Tempe, AZ; Azusa, San Jose, Sunnyvale, and Woodland Hills, CA; Norwalk, CT; Apopka, FL; Warner Robins, GA; Elk Grove and Rolling Meadows, IL; Westwood, MA; Annapolis, Baltimore, Belcamp, Elkridge, Gaithersburg, Hagerstown, Linthicum, and Sykesville, MD; Ocean Springs, MS; Melville and Williamsville, NY; Cincinnati, OH; and Clinton, TN; Garland, TX; Salt Lake City, UT; and Charlottesville, VA. Outside United States locations in France, Germany, Italy, Norway, and United Kingdom.

**Ships** – San Diego, CA; Avondale, Harahan, Harvey, Tallulah, and Waggaman, LA; Gulfport and Pascagoula, MS; and Newport News, VA.

**Information Technology** – Hawthorne, CA; Lafayette, CO; Washington, DC; Atlanta, GA; Reading, MA; Annapolis Junction, Greenbelt, and Rockville, MD; Bethpage and Bohemia, NY; Brook Park and Fairborn, OH; Oklahoma City, OK; Knoxville, TN; Dallas, TX; and Arlington, Chantilly, Fairfax, Falls Church, Herndon, McLean, and Reston, VA.

**Mission Systems** – Huntsville, AL; Carson, Huntington Beach, McClellan, Redondo Beach, San Bernardino, San Diego, San Jose, San Pedro, Sunnyvale, Van Nuys, and West Sacramento, CA; Aurora and Colorado Springs, CO; Washington, DC; Columbia, Elkridge, and Lanham, MD; Bellevue, NE; Albuquerque, NM; Kettering, OH; Middletown, RI; Clearfield, UT; and Arlington, Chantilly, Chester, Dahlgren, Fairfax, Newport News, Reston, Stafford, Vienna, and Virginia Beach, VA.

**Integrated Systems** – Sierra Vista, AZ; Carson, El Segundo, Fort Tejon, Hawthorne, Palmdale, Rancho Bernardo, and San Diego, CA; Jacksonville, Melbourne and St. Augustine, FL; Lake Charles, LA; Hollywood, MD; New Town, ND; Bethpage and Hicksville, NY; Lexington, SC; and Irving, TX.

**Space Technology** – El Segundo, Manhattan Beach, Redondo Beach and San Diego, CA; Warner Robins, GA; St. Charles, MO; and Charlotte, NC.

**Other** – Fairfield, CA; Wallingford, CT; Haverhill, MA; and Springfield, MO. Outside United States locations in China, Malaysia, and United Kingdom.

**Corporate** – Brea and Los Angeles, CA; Olathe, KS; Englewood, NJ; York, PA; Marshall, TX; and Arlington, VA. Outside United States locations in Canada and United Kingdom.

**NORTHROP GRUMMAN CORPORATION**

The following table provides a summary of floor space available to the company at December 31, 2004:

<i>Square feet</i>	Owned	Leased	Government Owned/Leased	Total
Electronic Systems	8,739,139	3,866,544		<b>12,605,683</b>
Ships	13,114,908	1,947,971	74,322	<b>15,137,201</b>
Information Technology	32,673	4,252,378		<b>4,285,051</b>
Mission Systems	394,154	5,041,891		<b>5,436,045</b>
Integrated Systems	3,970,097	3,759,593	1,969,293	<b>9,698,983</b>
Space Technology	3,193,863	2,251,522	4,656	<b>5,450,041</b>
Other	208,673	388,209		<b>596,882</b>
Corporate	547,760	524,188		<b>1,071,948</b>
<b>Total</b>	<b>30,201,267</b>	<b>22,032,296</b>	<b>2,048,271</b>	<b>54,281,834</b>

The company believes its properties are well maintained and in good operating condition and that the productive capacity of the company's properties is adequate to meet current contractual requirements for the foreseeable future.

**Item 3. Legal Proceedings**

Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. The company is a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into its premises and certain historical products. Many of these claims have been dismissed with no payment and the remaining resolved claims have involved amounts that were not material either individually or in the aggregate. Based upon the information available, the company does not believe that the resolution of any of these proceedings will have a material adverse effect on its financial position, results of operations, or cash flows.

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. Based on available information, the company does not believe, but can give no assurance, that any matter resulting from a U.S. Government investigation would have a material adverse effect on its financial position, results of operations, or cash flows.

In August 1992, in U.S. ex rel. Rex Robinson v. Northrop Grumman Corporation, the United States District Court for the Northern District of Illinois unsealed a complaint brought by four individuals in the name of the United States of America. The action was filed on August 10, 1989, seeking damages under the *qui tam* provision of the civil False Claims Act. The relators also sought damages as individuals for alleged retaliation. On March 1, 2005, the company agreed with the government to settle the False Claims Act case for \$62 million. The company also agreed to settle the relators' personal claims, including their claim for attorney fees, and to reimburse the government for previously billed legal costs incurred by the company. As a result of the settlement, the company recorded a pre-tax charge of \$35 million in the fourth quarter of 2004 and expects to pay a total of \$99 million in the first quarter of 2005.

**Other Matters**

In the event of contract termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred on the program. The company received a termination for

**NORTHROP GRUMMAN CORPORATION**

convenience notice on the Tri-Service Standoff Attack Missile (TSSAM) program in 1995. In December 1996, the company filed a lawsuit against the U.S. Government in the U.S. Court of Federal Claims seeking the recovery of approximately \$750 million for uncompensated performance costs, investments, and a reasonable profit on the program. In prior years, the company had charged to operations in excess of \$600 million related to this program. Northrop Grumman is unable to predict whether it will realize some or all of its claims, none of which are recorded on its balance sheet, from the U.S. Government related to the TSSAM contract.

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

No items were submitted to a vote of security holders during the fourth quarter of 2004.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

(a) Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters and Recent Sales of Unregistered Securities.

*Market Information and Dividends* – The information required by this Item is in Note 19 to the Consolidated Financial Statements in Part II, Item 8.

*Holdings* – The approximate number of common shareholders was 40,110 as of February 28, 2005.

*Securities Authorized for Issuance Under Equity Compensation Plans* – The information required by this Item is in Note 17 to the Consolidated Financial Statements in Part II, Item 8.

*Recent Sales of Unregistered Securities* – The company did not sell any unregistered securities in the past three years.

(b) Use of Proceeds.

No information is required in response to this item.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

**NORTHROP GRUMMAN CORPORATION**

The table below summarizes the company's repurchases of common stock during the three months ended December 31, 2004:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share<sup>(2)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
October 1, 2004, through October 31, 2004	148,500	\$ 53.06	148,500	\$ 1 billion
November 1, 2004, through November 30, 2004	1,003,600	\$ 56.38	1,003,600	\$ 944 million
December 1, 2004, through December 31, 2004	4,473,600	\$ 56.43	4,473,600	\$ 691 million
<b>Total</b>	<b>5,625,700</b>	<b>\$ 56.33</b>	<b>5,625,700</b>	

(1) On August 20, 2003, the company's Board of Directors authorized a share repurchase program of \$700 million of its outstanding common stock. This share repurchase program was completed on October 5, 2004, and resulted in the retirement of 14.4 million shares of common stock, with \$500 million of the repurchases occurring in 2004.

On October 26, 2004, the company's Board of Directors authorized a share repurchase program of up to \$1 billion of its outstanding common stock, which commenced in November 2004 and is expected to be completed over a twelve to eighteen-month period.

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.

(2) Includes commissions paid.

**Item 6. Selected Financial Data**

The data for 2000 presented in the following table has been adjusted to exclude the company's discontinued operations except for number of employees at year-end, floor space, and all balance sheet data, including net working capital (deficit), total assets, notes payable to banks and long-term debt, long-term obligations and preferred stock, and shareholders' equity. All data presented for the periods 2001 through 2003 has been adjusted to exclude discontinued operations except for floor space, net working capital (deficit), current ratio, and total assets. As the company suspended its efforts to sell the remaining three Component Technologies businesses in the third quarter of 2004, the assets, liabilities and results of operations of these businesses have been reclassified from discontinued to continuing operations for all periods presented.

The comparability of amounts in the following table is affected by the significant acquisitions of Litton Industries, Inc. and Newport News Shipbuilding Inc. in 2001, and TRW, Inc. in 2002.



[Table of Contents](#)
**NORTHROP GRUMMAN CORPORATION**

All per share data in the following table has been adjusted for all periods presented for the two-for-one stock split of the company's common stock in 2004.

**Selected Financial Data**

	Year ended December 31				
<i>\$ in millions, except per share</i>	2004	2003	2002	2001	2000
<b>Summary of Operations</b>					
Sales and service revenues					
United States Government	\$25,966	\$22,722	\$14,207	\$10,417	\$6,662
Other customers	3,887	3,674	3,199	2,782	956
Total revenue	\$29,853	\$26,396	\$17,406	\$13,199	\$7,618
Operating margin	\$ 2,006	\$ 1,468	\$ 1,120	\$ 977	\$1,098
Income from continuing operations before cumulative effect of accounting change	1,093	758	455	422	625
<b>Per Share Amounts</b>					
Basic earnings per share, from continuing operations before cumulative effect of accounting change	\$ 3.04	\$ 2.04	\$ 1.86	\$ 2.39	\$ 4.43
Diluted earnings per share, from continuing operations before cumulative effect of accounting change	2.99	2.03	1.83	2.37	4.41
Cash dividends per common share	.89	.80	.80	.80	.80
<b>Year-end Financial Position</b>					
Total assets	\$33,361	\$33,022	\$42,331	\$20,818	\$9,622
Net working capital (deficit)	684	(623)	4,428	(64)	(162)
Notes payable to banks and long-term debt	5,158	5,891	9,635	5,489	1,615
Total long-term obligations and preferred stock	10,438	10,876	16,580	8,331	3,015
<b>Financial Ratios</b>					
Operating margin as a percentage of total revenue	6.7%	5.6%	6.4%	7.4%	14.4%
Income from continuing operations before cumulative effect of accounting change as a percentage of					
Total revenue	3.7	2.9	2.6	3.2	8.2
Average assets	3.3	2.0	1.4	2.8	6.6
Average shareholders' equity	6.7	5.0	4.2	7.5	17.4
Current ratio	1.11 to 1	.90 to 1	1.39 to 1	.99 to 1	.94 to 1
Notes payable to banks and long-term debt as a percentage of shareholders' equity	30.9%	37.3%	67.3%	74.3%	41.2%
<b>Other Financial Information</b>					
Company-sponsored research and development expenses	\$ 504	\$ 429	\$ 283	\$ 331	\$ 318
Depreciation	508	455	347	254	175
Amortization of purchased intangibles	226	227	170	134	92
Maintenance and repairs	398	244	153	165	96
Rent expense	456	472	307	215	122
Payroll and employee benefits	12,529	11,018	6,989	4,945	2,581
<b>Other Non-financial Information</b>					
Number of employees at year-end	125,400	123,400	118,100	93,400	39,300
Number of shareholders at year-end	40,158	39,345	28,212	17,880	11,750
Floor area ( <i>in millions of square feet</i> )					
Owned	30.2	31.6	32.4	30.4	14.3
Commercially leased	22.0	21.5	21.3	16.2	9.8
Leased from United States Government	2.0	2.0	2.1	2.7	2.9

**NORTHROP GRUMMAN CORPORATION****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****OVERVIEW**

Northrop Grumman provides technologically advanced, innovative products, services, and solutions in defense and commercial electronics, nuclear and non-nuclear shipbuilding, information technology, mission systems, systems integration, and space technology. 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 and abroad. Northrop Grumman conducts most of its business with the United States (U.S.) Government, principally the Department of Defense (DoD). The company also conducts business with foreign governments and makes domestic and international commercial sales.

**2004 Results**

Selected financial highlights are presented in the table below.

<i>\$ in millions, except per share</i>	2004	2003
Sales and service revenues	\$ 29,853	\$ 26,396
Operating margin	2,006	1,468
Income from continuing operations	1,093	758
Net income	1,084	866
Diluted earnings per share from continuing operations	2.99	2.03
Diluted earnings per share	2.97	2.32
Net cash provided by operating activities	1,936	798

**Sales and Service Revenues**

Sales in 2004 increased approximately \$3.5 billion, or 13 percent, over 2003 due to higher revenue in each of the company's business segments, including sales growth of 23 percent at Integrated Systems, 19 percent at Mission Systems, 16 percent at Space Technology, and 15 percent at Ships. The revenue growth at Integrated Systems was due primarily to increases of 51 percent and 16 percent in the Airborne Early Warning/Electronic Warfare Systems and Air Combat Systems business areas, respectively. The Mission Systems increase was driven by a 24 percent increase in the Command, Control and Intelligence Systems business area and a 19 percent increase in the Missile Systems business area. The increase in Space Technology revenues was led by increases of 41 percent, 22 percent, and 18 percent in its Software Defined Radios, Civil Space, and Intelligence, Surveillance, and Reconnaissance business areas, respectively. Revenue growth at Ships was due primarily to increases of 34 percent in the Amphibious and Auxiliary business area, 26 percent in the Surface Combatants business area, and 16 percent in the Submarines business area.

**Operating Margin**

Operating margin for 2004 increased \$538 million, or 37 percent, as compared with 2003, reflecting a \$389 million increase in operating performance from the segments and a decrease of \$218 million in pension expense, which were partially offset by \$145 million in higher unallocated expenses.

The 2004 operating margin includes a pre-tax charge of \$60 million for increased projected costs for the F-16 Block 60 fixed-price development program and a pre-tax charge of \$52 million for increased projected costs for the Multi-role Electronically Scanned Array (MESA) radar system for the Australian Defence Force's Project Wedgetail fixed-price development program, both reported in the Electronic Systems segment. Operating margin for 2003 included a pre-tax charge of \$69 million for the commercial Polar Tanker program reported in the Ships segment, a pre-tax charge of \$40 million for the F-16 Block 60 fixed-price development program reported in the Electronic Systems segment, and a pre-tax charge of \$31 million for the adjustment to fair market value of the remaining Component Technologies (CT) businesses reclassified to continuing operations.

## **NORTHROP GRUMMAN CORPORATION**

Operating margin for 2004 includes pension expense recognized in accordance with accounting principles generally accepted in the United States of America totaling \$350 million, a decrease of 38 percent from 2003 primarily due to improved 2003 asset returns partially offset by a lower discount rate and a lower than expected long-term rate of return on plan assets. Pension expense allocated to contracts pursuant to U.S. Government Cost Accounting Standards (CAS) increased operating margin by \$338 million in 2004 and \$265 million in 2003.

The increase in unallocated expenses is primarily due to higher legal costs, which include 2004 provisions related to the resolution of the Allison Gas Turbine and Robinson litigation (see Note 16 to the Consolidated Financial Statements in Part II, Item 8), as well as higher mark-to-market stock compensation expense and deferred state income taxes.

### **Income from Continuing Operations**

Income from continuing operations for 2004 increased \$335 million, or 44 percent, as compared with 2003. This increase reflects improved operating margin performance and \$66 million in lower interest expense due to a reduction in fixed-rate debt as a result of the company's debt restructuring plan, which was substantially completed by the end of the second quarter of 2003. These increases were partially offset by several one-time charges in 2004 recorded in Other, net, including a \$15 million foreign currency exchange loss on the liquidation of a subsidiary loan, a \$13 million expense related to the early retirement of \$250 million 9.375 percent debentures due 2024, and a \$9 million loss on the sale of the payment-in-kind note receivable from TRW Automotive Holdings Corp.

The company's effective tax rate on income from continuing operations for 2004 was 32 percent compared to 28 percent for 2003. The higher rate in 2004 is primarily due to the reduced effect of research and development tax credits. The company recognized research and development tax credits of \$20 million and \$51 million for the years ended December 31, 2004, and 2003, respectively.

### **Net Income**

Net income for 2004 increased \$218 million, or 25 percent, as compared with 2003, which included a \$117 million decrease from discontinued operations. The results of discontinued operations for 2003 included the January and February operating results of TRW's automotive business (Auto), which was sold in February 2003. The loss on disposal of discontinued operations in 2004 was primarily due to the resolution of indemnities and other contractual issues resulting from previously disposed entities. The gain on disposal of discontinued operations in 2003 resulted from sales of certain CT businesses during the year.

### **Diluted Earnings per Share**

Diluted earnings per share for 2004 was \$2.97 per share, an increase of 28 percent from \$2.32 per share in 2003. Earnings per share are based on weighted average diluted shares outstanding of 365.0 million for 2004 and 368.4 million for 2003.

### **Net Cash Provided by Operating Activities**

Net cash provided by operating activities in 2004 increased \$1.1 billion as compared with 2003. Net cash provided by operating activities in 2004 includes contributions to the company's pension plans totaling \$623 million, of which \$250 million was voluntarily pre-funded in the fourth quarter, as compared to contributions of \$329 million in 2003. Net cash provided by operating activities in 2003 includes a \$1 billion tax payment related to the completion of the B-2 Engineering and Manufacturing Development (EMD) contract.

### **Outlook**

United States defense contractors have benefited from the upward trend in overall defense spending over recent years. While the current defense budget forecast shows a slower rate of growth than in prior years, and certain

## **NORTHROP GRUMMAN CORPORATION**

programs in which the company participates may be subject to potential reductions, the company believes that its portfolio of technologically advanced, innovative products, services, and solutions in systems integration, defense electronics, information technology, advanced aircraft, shipbuilding, and space technology will generate revenue growth in 2005 and beyond. In 2005, based on total backlog (funded and unfunded) of approximately \$58 billion as of December 31, 2004, and its opportunity to win future programs, the company expects sales to range between \$31 billion and \$31.5 billion and continued improvements in net income and net cash provided by operating activities over 2004. The major industry and economic factors that will affect the company's future performance are described in the following paragraphs.

### **Industry Factors**

While Northrop Grumman is subject to the usual vagaries of the marketplace, it is also affected by the unique characteristics of the defense industry and by certain elements peculiar to its own business mix. Northrop Grumman, along with Lockheed Martin Corporation (Lockheed Martin), The Boeing Company (Boeing), Raytheon Company (Raytheon), and General Dynamics Corporation (General Dynamics) are among the largest companies in the defense industry at this time. Northrop Grumman competes against these and other companies for a number of programs, both large and small. Intense competition and long operating cycles are both key characteristics of Northrop Grumman's business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract, turn out to be a subcontractor. It is not uncommon to compete with a peer company and, simultaneously on other contracts, to be either a supplier to or a customer of such competitor. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity unknown in many industries.

The company's success in the competitive defense industry depends upon its ability to develop and market its products, as well as its ability to provide the people, facilities, equipment, and financial capacity needed to deliver those products with maximum efficiency. It is necessary to maintain, as the company has, sources for raw materials, fabricated parts, electronic components, and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations. Northrop Grumman's operating policies are designed to achieve these objectives.

### **Economic Opportunities, Challenges, and Risks**

The defense of the United States and other North Atlantic Treaty Organization (NATO) countries requires the ability to respond to one or more regional conflicts, terrorist acts, or threats to homeland security, and is increasingly more dependent upon proactive threat identification. Such engagements may require unilateral or cooperative initiatives ranging from passive surveillance to active engagement, deterrence, policing, or peacekeeping. In addition, the DoD's strategy continues to be affected by the general public's concern for placing military or civilian personnel at risk. As a result of these trends, both the United States and other NATO countries are increasingly relying on sophisticated weapon systems that provide long-range surveillance and intelligence, battle management, and precision strike capabilities combined with the ability to rapidly deploy complete defensive platforms around the world. Accordingly, defense procurement spending is expected to be weighted towards the development and procurement of advanced electronics and software that enhance the capabilities of individual weapons systems and provide for the real-time integration of individual surveillance, information management, strike, and battle management platforms.

United States defense contractors have benefited from the upward trend in overall defense spending over recent years. Defense spending in NATO countries has stabilized, while those countries continue to increase their focus upon the development and procurement of advanced electronics and information systems capabilities. Although the ultimate size of future defense budgets remains uncertain, the 2006 budget submitted by the President of the United States indicates that the defense budget will increase approximately \$83 billion, or 20 percent, over the next five years. While this budget includes proposed reductions for certain programs in which the company

## **NORTHROP GRUMMAN CORPORATION**

participates (for example, CVN21, DD(X), Kinetic Energy Interceptors, and Virginia-class submarines), the company believes that spending on recapitalization and transformation of homeland security and defense assets will continue to be a national priority, with particular emphasis on areas involving intelligence, surveillance, and reconnaissance, and national missile defense.

Substantial new competitive opportunities for the company include space-based radar, transformational communication system, and several international and homeland security programs. The company continues to focus on operational and financial performance for continued growth in 2005 and beyond.

U.S. Government programs in which Northrop Grumman either participates, or strives to participate, must compete with other programs for consideration during our nation's budget formulation and appropriation processes. Budget decisions made in this environment will have long-term consequences for the size and structure of Northrop Grumman and the entire defense industry.

Northrop Grumman has historically concentrated its efforts in high technology areas such as stealth, airborne surveillance, battle management, precision weapons, systems integration, defense electronics, and information technology. Through its acquisitions of Litton Industries, Inc. (Litton), Newport News Shipbuilding Inc. (Newport News), and TRW, Inc. (TRW), the company now has a significant presence in federal and civil information systems; the manufacture of a broad range of ships including aircraft carriers and submarines; space technology; command, control & intelligence (C2I), and missile systems. The company believes that its programs are a high priority for national defense, but there remains the possibility that one or more of them may be reduced, extended, or terminated.

The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time. Most of the company's product warranties are provided under government contracts, the costs of which are generally recoverable from the customer.

Prime contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject to numerous procurement regulations, including the False Claims Act and The International Traffic in Arms Regulation promulgated under the Arms Export Control Act, with noncompliance found by any one agency possibly resulting in fines, penalties, debarment, or suspension from receiving additional contracts with all U.S. Government agencies. Given the company's dependence on U.S. Government business, suspension or debarment could have a material adverse effect on the company.

## **ORGANIZATION, PRODUCTS, AND SERVICES**

The company is aligned into seven business sectors: Electronic Systems, Newport News, Ship Systems, Information Technology, Mission Systems, Integrated Systems, and Space Technology. For financial reporting purposes, each business sector is a reportable segment with the exception of Newport News and Ship Systems, which are aggregated and reported as the Ships segment in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131 – *Disclosures about Segments of an Enterprise and Related Information*.

On October 17, 2002, the company announced its intention to sell the businesses comprising its CT segment. As a result, these businesses were classified as discontinued operations beginning in the third quarter of 2002. Since that announcement, the company has sold all but three of the CT businesses. The remaining operations consist of a manufacturer of complex printed circuit boards, a connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these businesses. Accordingly, the assets, liabilities, and results of operations of these businesses have been reclassified from discontinued to continuing operations for all periods presented. These businesses are reported under the segment entitled "Other." For additional information, see Notes 5 and 6 to the Consolidated Financial Statements in Part II, Item 8.

## **NORTHROP GRUMMAN CORPORATION**

Segment reporting for Mission Systems and Space Technology, TRW businesses acquired on December 11, 2002, commenced in the first quarter of 2003, as the 2002 results of operations for these new segments were not significant.

Effective January 1, 2004, the company realigned businesses among three of its operating segments. For additional information, see Realignment discussion located in the “Summary Segment Financial Data” section in Part I, Item 1.

Effective January 1, 2005, the company transferred management responsibility for two of the three remaining CT businesses to the Electronic Systems segment. These businesses consist of a manufacturer of complex printed circuit boards and an electronic connector manufacturer. The effect of this realignment on the Electronic Systems segment’s sales and operating margin is not significant.

### **Electronic Systems**

The Electronic Systems segment, headquartered in Linthicum, Maryland, develops, produces, and supports high performance sensors, intelligence and processing, and navigation systems operating in all environments from undersea to outer space. It also develops, produces, and supports power, power control, and ship controls for naval combatants. The segment is comprised of five major business areas: Aerospace Systems; Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) & Naval Systems; Defensive Systems; Navigation Systems; Government Systems; Space Systems; and three smaller business areas referred to collectively as “Defense Other.”

*Aerospace Systems* – Aerospace Systems products include sensors and integrated sensor suites which meet military surveillance and precision-strike needs. Products cover a wide variety of radar systems for fighter and surveillance aircraft as well as helicopters. Fire control and navigation radars include systems for the F-16, C-130, B-1B, Apache Longbow and F/A-22 aircraft as well as other key avionics systems for the F-16 Block 60 and the F-35 Joint Strike Fighter. Airborne surveillance radar systems include the Airborne Warning and Control System (AWACS) radar, the MESA, the Multi-Platform Radar Technology Insertion Program (MP-RTIP), and the E-2C Radar Modernization Program (RMP). Other product areas include precision guided munitions for artillery and Unmanned Aerial Vehicle (UAV) delivery, night vision goggles, and weapon sights.

*C4ISR & Naval Systems* – C4ISR & Naval Systems is a systems oriented business consisting of subsystems and major systems integration programs in C4ISR sensors and processing, ship power propulsion and control systems, and air defense/air traffic control systems. Principal programs include: intelligence, surveillance and reconnaissance processing systems; bridge management and controls for naval combatants and commercial marine customers; large air defense systems for foreign states; launch tubes for Trident submarines; the Advanced SEAL Delivery System mini-submarine; power generation systems for aircraft carriers; and propulsion systems for the Virginia-class submarine.

*Defensive Systems* – Defensive Systems provides electronic and infrared countermeasure systems, targeting systems, automatic test equipment, simulation products, and laser systems. Specific products include radar warning receivers, self-protection jammers, special receivers, and integrated electronic warfare systems for protecting fixed-wing and rotary-wing aircraft. Countermeasure products also include the Directional Infrared Countermeasures system, which protects military and commercial fixed-wing and rotary-wing aircraft from shoulder-launched, infrared-guided threats. Defensive Systems also provides test systems and training facilities that emulate radars of potential adversaries.

*Navigation Systems* – Navigation Systems supplies international and domestic defense and commercial markets with navigation and positioning systems, flight certified computers, multifunction displays, friend-or-foe identification interrogators/transponders, and integrated avionics packages. Its products are used in commercial space and aircraft

## **NORTHROP GRUMMAN CORPORATION**

applications as well as in military air, land, sea, and space systems. Key programs include: integrated avionics for the U.S. Marine Corps attack and utility helicopters as well as U.S. Navy E-2; navigation and positioning systems for the U.S. Air Force F/A-22, Eurofighter, U.S. Navy MH-60, Joint U.S. Air Force-U.S. Navy unmanned combat aerial systems, Airbus and Bombardier commercial aircraft, and military/scientific space applications; computers, displays, transponders and friend-or-foe identification for military applications such as the C-17, Eurofighter and MH-60; and fiber-optic acoustic systems for underwater surveillance for Virginia-class submarines.

*Government Systems* – Government Systems provides products and services for domestic and international defense and government agencies. Products include postal automation and material handling systems, air traffic control communications systems, satellite ground stations, information security, and a variety of security sensors and systems in support of Homeland Defense. Key programs include: Advanced Flat Sorting Machines, International Sorting Centers, Civil Communications, Air Traffic Control Satellite Communications Terminals, United States Postal Service Bio-Detection, and Hazardous Duty Robots.

*Space Systems* – Space Systems products include visible, infrared, and radio frequency payloads and the associated ground processing for remote sensing applications, such as environmental monitoring, missile warning, and surveillance. Principal programs include the Space-Based Infrared Surveillance (SBIRS) program, payloads for restricted programs, the Defense Meteorological Satellite Program (DMSP), the National Polar-Orbiting Operational Environmental Satellite System (NPOESS), and the Defense Support Program (DSP).

*Defense Other* – Other product and service lines in the Electronic Systems segment include communications, homeland defense, and logistics. It also includes Systems Development and Technology, which develops next-generation technologies that support Electronic Systems' market areas and position the segment in key developing markets, such as defense against chemical and biological warfare, cyberspace and signals intelligence, electro-optics and infrared systems, coherent lidar (laser based radar) technologies, and C4ISR.

### **Ships**

The Ships segment combines two operating sectors, Newport News, headquartered in Newport News, Virginia, and Ship Systems, headquartered in Pascagoula, Mississippi, and includes the following products and services: Surface Combatants; Aircraft Carriers; Amphibious and Auxiliary; Submarines; Commercial and International; and Services and Other.

*Surface Combatants* – Ship Systems builds Surface Combatants, which includes the design and construction of the Arleigh Burke DDG 51 Class Aegis guided missile destroyers; design of DD(X), the Navy's future transformational surface combatant class; and the Coast Guard's Deepwater Modernization Program. The latter two programs were awarded in 2002. Ship Systems is one of two prime contractors designing and building DDG 51 Class destroyers, which provide primary anti-aircraft and anti-ship missile protection for the U.S. Navy fleet. Seven Arleigh Burke Class Destroyers are currently under construction with an additional four ships in backlog. The DD(X) program is a \$2.9 billion contract to develop and test eleven Engineering Development Models (EDMs) including an Integrated Electric Propulsion System (IPS), an all-composite low signature deckhouse with embedded radar and communication apertures, a new stealthy hull form, and a new Peripheral Vertical missile Launching System (PVLS). The contract further provides for incorporating these advanced technologies into the design of the next generation destroyer, DD(X). These technologies are also to be incorporated into the next generation cruiser, CG(X), and many ships already in the fleet, as well as other future new ship classes. Construction of the first DD(X) is scheduled to begin in late 2007 or early 2008. The current DD(X) acquisition plan calls for a dual source sharing of the production phase between the company and Bath Iron Works, a wholly owned subsidiary of General Dynamics. The Navy has indicated that a near-term competition for a single source contract would be a more economical solution. The Navy's determination is subject to approval by the DoD. In addition, Ship Systems and Lockheed Martin are joint venture partners for the Coast Guard's Deepwater Modernization Program. Ship Systems has design and production responsibility for all surface ships, including three new classes of cutters. The program is a 20-year program with the surface ship content having an estimated revenue value of \$8.1 billion.

## **NORTHROP GRUMMAN CORPORATION**

*Aircraft Carriers* – Newport News is the nation’s sole designer, builder, and refueler of nuclear-powered aircraft carriers. The U.S. Navy’s newest carrier, the *USS Ronald Reagan*, was redelivered to the fleet in May 2004. Construction on the last carrier in the Nimitz class, the *USS George H. W. Bush*, continues with the christening scheduled to occur in 2006 and delivery to the U.S. Navy in 2008. Advanced design and preparation continues for the new generation carrier, CVN 21, which will incorporate transformational technologies that will result in manning reductions, improved war fighting capability, and a new nuclear propulsion plant design. The company also provides ongoing maintenance for the U.S. Navy aircraft carrier fleet through overhaul, refueling, and repair work. Newport News is currently performing the overhauling and refueling of the *USS Dwight D. Eisenhower* with redelivery to the U.S. Navy anticipated in early 2005. Planning for the *USS Carl Vinson* refueling and overhaul is underway. The *USS Carl Vinson* is expected to arrive at Newport News in late 2005.

*Amphibious and Auxiliary* – Amphibious and Auxiliary programs include the design and construction of amphibious assault ships for the U.S. Navy, including the Wasp LHD 1 Class and the San Antonio LPD 17 Class. Ship Systems is the sole provider for the LHD class of large-deck, 40,500-ton multipurpose amphibious assault ships, which serve as the centerpiece of an Amphibious Ready Group. Currently, the LHD 8 is under construction and is a significant upgrade from the preceding seven ships. The design and production of the LHD 8 is a \$1.6 billion program with delivery scheduled for 2007. Ship Systems is also the sole provider of the LPD 17 class of ships, which function as amphibious transports. There are five LPD 17 ships currently under construction. The initial ship is expected to be delivered in mid-2005.

*Submarines* – Newport News is one of only two companies capable of designing and building nuclear-powered submarines. In February 1997, the sector and Electric Boat, a wholly owned subsidiary of General Dynamics, reached an agreement to cooperatively build the first four Virginia-class nuclear attack submarines over the next 10 years. The lead ship, *USS Virginia*, was delivered to the U.S. Navy and commissioned into the fleet in October 2004. Newport News christened the *USS Texas* in July 2004, as progress continues on the remaining two boats of the first block, *USS Hawaii* and *USS North Carolina*. Electric Boat and Newport News were awarded a construction contract in August 2003, which was subsequently modified in January 2004, for the second block of six Virginia-class submarines. Second block planning and long lead material procurement is underway on the first three boats of the second block. Component material procurement for boats six through ten is also underway. Construction has begun on the first two boats of the second block, *USS New Hampshire* and *USS New Mexico*.

*Commercial and International* – Ship Systems is under contract to produce five double-hulled tankers, of which four ships have been delivered. These tankers each transport one million barrels of crude oil from Alaska to west coast refineries and are fully compliant with the Oil Pollution Act of 1990. The remaining ship is expected to be delivered in the fourth quarter of 2005.

*Services and Other* – Newport News and Ship Systems also provide after-market services, including on-going maintenance and repair work, for a wide array of naval and commercial vessels. The company has ship repair facilities in the U.S. Navy’s largest homeports of Norfolk, Virginia, and San Diego, California.

### **Information Technology**

The Information Technology segment, headquartered in northern Virginia, consists of four lines of business: Government Information Technology; Enterprise Information Technology; Commercial Information Technology; and Technology Services.

*Government Information Technology* – This business area covers a wide range of large-scale systems integration, solutions, and services programs for government customers across the DoD, federal civilian agencies, state and local, and national intelligence agencies. These programs encompass C4ISR, infrastructure systems and services, applied sciences and technology, and training and simulation. Government Information Technology is also the lead business area for the company’s Homeland Security (HLS) efforts. HLS solutions include emergency



## **NORTHROP GRUMMAN CORPORATION**

operations centers, identity management and identification/authentication, port and border security, training and exercises, cyber-warfare modeling, HLS requirements and optimization of systems, and consequence management.

C4ISR capabilities include mission planning and rehearsal, battle management command and control systems, tactical communications, satellite systems and applications, and wireless communications solutions. Infrastructure systems and services provides enterprise communications and infrastructure systems, information technology (IT) outsourcing, network operations center IT services, logistics systems, mission support systems, commercial services, and information assurance to a broad range of customers in both the government and commercial marketplaces. In the applied sciences and technology market, products include laser and imaging systems, weapons of mass destruction threat reduction analysis and simulation, systems analysis and modeling, health and applied science systems, and high-performance computing. In the training and simulation market, the sector is a prime developer and operator of modeling, simulation and analysis systems, computer-driven war-gaming and training, flight simulations, knowledge management systems, and mission readiness exercises.

*Enterprise Information Technology* – Enterprise Information Technology provides advanced solutions and complex IT products and professional services to both public sector and commercial customers, specifically in two core market segments: enterprise computing and multiservice networking and security.

*Commercial Information Technology* – Commercial Information Technology provides IT managed services directed at the commercial market (desktop and server management, hardware and software maintenance, help desk support, system and network administration, and network design) and a wide variety of systems, solutions and services for the state and local marketplace, including emergency response solutions, citizen security systems, and traffic management systems.

*Technology Services* – Technology Services includes logistics and weapons range support, training and simulation, facilities management services, flight systems and simulation services, mission integration and planning support, operational support of simulation-enhanced training programs, systems integration, information security, data center management, and systems engineering and networking.

### **Mission Systems**

The Mission Systems segment, headquartered in Reston, Virginia, is a leading global system integrator of complex, mission-enabling systems. The segment consists of three lines of business: C2I Systems; Missile Systems; and Technical and Management Services.

*Command, Control & Intelligence Systems* – C2I Systems provides a variety of command, control, communications, computers, and intelligence support to the various branches of the U.S. Department of Defense. Offerings include signals intelligence and exploitation systems, system engineering and integration, data collection and operations and maintenance, modeling and product generation, system simulation and integration and test, spacecraft C2 systems, payload control and terminal software, Army and tactical global combat service support, Army management information systems, joint service nuclear, biological and chemical reconnaissance systems, and tactical operation centers, interoperable C2 solutions, mission planning applications, tactical data link products, global command and control systems, interoperability engineering, intelligence gathering, and naval systems engineering support and integration.

*Missile Systems* – Missile Systems supports the U. S. integrated Missile Defense system and the Intercontinental Ballistic Missile (ICBM) Program. The integrated Missile Defense system market includes shooters, sensors, battle management command and control, communications, modeling and simulation, and test and evaluation. For this market, the segment provides war games, modeling and simulation, system test and integration, and missile system engineering to the Missile Defense Agency, Boeing, and Lockheed Martin. As prime contractor for the Kinetic Energy Interceptors (KEI) program, the segment is leading development and test activities focused on the boost

## **NORTHROP GRUMMAN CORPORATION**

phase element of the Missile Defense Agency's global layered missile defense system. As prime contractor for the ICBM Program Office, the segment offers ICBM domain knowledge, program management, systems engineering and integration, and sustainment and modernization services.

*Technical and Management Services* – Technical and Management Services primarily supports the U.S. Department of Defense and the U. S. Department of Homeland Security. Products and services offered include full life cycle design and information systems integration and operations, electromagnetic and infrared analysis, decision support with modeling tools, systems effectiveness evaluation, engineering prototypes and integration, simulation modeling for training resource allocation, multi-media training design and delivery, operational support of war fighting and peacekeeping (e.g., linguists and subject matter experts), base operating services, equipment maintenance, logistics and administrative support and freight forwarding services, biometrics, biological agent detection, maneuver and logistics training, force-on-force exercise development and control, force modernization and integration, and equipment training and fielding.

### **Integrated Systems**

The Integrated Systems segment, headquartered in El Segundo, California, designs, develops, produces, and supports fully missionized integrated systems and subsystems in the areas of battlespace awareness, command and control systems, and integrated combat systems. The segment is organized into the following product lines: Air Combat Systems (ACS), which includes Unmanned Systems; Airborne Early Warning and Electronic Warfare (AEW/EW) Systems; and Airborne Ground Surveillance and Battle Management (AGS/BM) Systems.

*Air Combat Systems* – The principal programs in ACS are subcontractor work on the F/A-18 and F-35 programs, and the Multi-Platform Radar Technology Insertion Program (MP-RTIP) and prime contract work on the B-2 Program. For the F/A-18, ACS is responsible for approximately 40 percent of the aircraft, including the full integration of the center and aft fuselage and vertical tail sections and associated subsystems. For the F-35, ACS is responsible for the detailed design and integration of the center fuselage and weapon bay, a large part of systems engineering, mission system software, ground and flight test support, signature/low observables development, and support of modeling and simulation activities. ACS is the prime systems integration contractor for the MP-RTIP, which will provide advanced radar capabilities for both the Global Hawk Unmanned Aerial Vehicle and the latest Air Force Multi Sensor Command and Control Aircraft (E-10A). ACS is embarking on a robust radar and avionics upgrade program for the B-2 bomber and is a prime integrator for all Logistics support activities including Program Depot Maintenance.

The principal programs at ACS's Unmanned Systems (UMS) consist of the Global Hawk, J-UCAS, and the Vertical Takeoff Unmanned Air Vehicle (VTUAV). UMS is the prime contractor for these product lines with the exception of the VTUAV Future Combat Systems (FCS). The Global Hawk is a high altitude, long endurance unmanned aerial reconnaissance system. The purpose of the J-UCAS program is to demonstrate the technical feasibility, military utility, and operational value for a networked system of high performance and weaponized unmanned air vehicles to effectively and affordably prosecute 21st century combat missions. VTUAV is a vertical takeoff and landing tactical UAV system in development and low-rate initial production and consists of two versions – the Fire Scout for the U.S. Navy and the FCS for the U.S. Army.

*Airborne Early Warning and Electronic Warfare Systems* – AEW Systems principal products include the E-2C (Hawkeye) and Advanced Hawkeye aircraft. The Hawkeye is the U.S. Navy's airborne battle management command and control mission system providing airborne early warning detection, identification, tracking, targeting and communication capabilities. The company is currently delivering E-2C aircraft to the U.S. Navy and international customers under a multiyear contract, and has also been awarded a follow-on multi-year contract for eight additional aircraft to be delivered to the U.S. Navy through 2009. The company is developing the next generation capability including radar, mission computer, vehicle, and other system enhancements called the Advanced Hawkeye under a system development and demonstration contract with the U.S. Navy.

## **NORTHROP GRUMMAN CORPORATION**

EW Systems principal products include the EA-6B (Prowler) and EA-18G electronic attack aircraft. The EA-6B is currently the armed services' only offensive tactical radar jamming aircraft. EW Systems has developed the next generation mission system for this aircraft under the ICAP (Increased Capability) III contract currently in the final test and evaluation phase. Low-rate initial production for ICAP III Kits has been authorized. In addition, the company has received a contract to incorporate the ICAP III mission system into a F/A-18 platform designated the EA-18G. Integrated Systems is the principal subcontractor to Boeing for this program currently in the system development and demonstration phase.

*Airborne Ground Surveillance and Battle Management Systems* – AGS/BM Systems is the prime contractor on the Joint Surveillance Target Attack Radar System (Joint STARS) program. Joint STARS detects, locates, classifies, tracks, and targets potentially hostile ground movement in all weather conditions. It is designed to operate around the clock in constant communication through secure data links with Air Force command posts, Army mobile ground stations, or centers for military analysis far from the point of conflict. One aircraft remains in the delivery contract, scheduled for delivery in early 2005. As Joint STARS nears the end of its production, a follow-on system, the E-10A Multi-Sensor Command & Control Aircraft (MC2A), is in development and will include the MP-RTIP radar. AGS/BM Systems was selected as the prime contractor for the E-10A Weapon System Integration program by the U.S. Air Force in 2003. In September 2004, AGS/BM Systems was awarded a major Battle Management Command & Control (BMC2) subsystem contract.

### **Space Technology**

The Space Technology sector, headquartered in Redondo Beach, California, develops a broad range of systems at the leading edge of space, defense, and electronics technology. The sector provides products primarily for the U.S. government that contribute significantly to the nation's security and leadership in science and technology. The Space Technology business primarily consists of the following major business areas: Intelligence, Surveillance & Reconnaissance (ISR); Civil Space; Software Defined Radios; Satellite Communications (SatCom); Missile & Space Defense; and Technology.

*Intelligence, Surveillance & Reconnaissance* – In the ISR business area, the sector's capabilities give the nation's monitoring systems a global reach and enhance national security. Addressing requirements in space-based intelligence, surveillance, and reconnaissance systems, the sector provides mission and system engineering, satellite systems, and mission operations. Customers are predominantly restricted, as are the major programs. The Defense Support Program (DSP) is also part of this business area, and has been monitoring ballistic missile launches for the U.S. Air Force for decades.

*Civil Space* – The Civil Space business area produces and integrates space-based systems, instruments, and services primarily for the National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA), and other governmental agencies. These systems are primarily used for space science, earth observation and environmental monitoring, and exploration missions. A variety of systems and services are provided, including mission and system engineering services, spacecraft and instrument systems, mission operations, and propulsion systems. Major programs include the National Polar-orbiting Operational Environmental Satellite System (NPOESS), the James Webb Space Telescope (JWST), Prometheus I (formally the Jupiter Icy Moons Orbiter), the Earth Observing System (EOS), and the legacy Chandra space telescope program.

*Software Defined Radios* – Space Technology's Software Defined Radios business area is at the forefront of radio technology, and designs, develops, and produces advanced integrated Communications, Navigation and Identification (CNI) systems, radios, and avionics integration software. The sector's avionics systems represent the "eyes and ears" of the F/A-22 Raptor jet fighter and F-35 Joint Strike Fighter.

*Satellite Communications* – The SatCom business area includes complex satellite communication payloads. Key customers are satellite prime contractors in support of the DoD and other government agencies. Major programs

## **NORTHROP GRUMMAN CORPORATION**

include the Advanced Extremely High Frequency (AEHF) payload, and the communication payload for the legacy Milstar program, currently in operation.

*Missile & Space Defense* – The Missile & Space Defense business area produces space, air, and ground-based systems that detect, track, and destroy missiles. Key capabilities and products include system integration, spacecraft design and development, and high energy laser systems and subsystems. Primary customers include the Missile Defense Agency (MDA), the Air Force, the Army, and other prime contractors. Major programs include the Space Tracking and Surveillance System (STSS), Airborne Laser (ABL), and Mobile Tactical High Energy Laser (MTHL).

*Technology* – The Technology business area consists primarily of government funded research and development (R&D) contracts in support of the five business areas described above.

## **BUSINESSES ACQUIRED**

The current composition of Northrop Grumman Corporation is the result of a series of strategic acquisitions, mergers, and divestitures.

*Litton and Newport News* – In 2001, the company purchased Litton, the Electronics and Information Systems Group of Aerojet-General Corporation (EIS), and 80.7 percent of Newport News. On January 18, 2002, the company acquired the remaining shares of Newport News.

*TRW* – In December 2002, the company purchased 100 percent of the common stock of TRW valued at approximately \$12.5 billion, including the assumption of TRW's debt of \$4.8 billion. The company issued approximately 139 million shares of its common stock, with cash paid in lieu of any fractional share of the company's stock, which otherwise would be issued to the TRW shareholders.

The consolidated financial statements as of December 31, 2002, reflect preliminary estimates of the fair market value for purchased intangibles, retiree benefits assets and liabilities, and debt as well as preliminary estimates of adjustments necessary to conform TRW to the company's accounting policies. Auto was included in the total TRW valuation and was valued and recorded at its sale price, which represents its fair market value. As of December 31, 2003, the company completed the fair market value and accounting conformance evaluation process for TRW and recorded an aggregate increase to goodwill of \$1.6 billion.

## **BUSINESSES SOLD AND DISCONTINUED OPERATIONS**

*TRW Auto* – On February 28, 2003, the company sold Auto to The Blackstone Group for \$3.3 billion in cash, a \$600 million face value payment-in-kind note, initially valued at \$455 million, and a 19.6 percent interest in the new enterprise, initially valued at \$170 million. The acquirer also assumed debt of approximately \$200 million. The cash received from the sale of Auto was adjusted from the sale agreement amount by cash sold with the business, purchase price adjustments, and an asset retained. Cash proceeds from the sale were primarily used to reduce debt. In January 2004, the restrictions on the investment in Auto were amended to provide the company more flexibility in monetization. In February 2004, the company's investment in Auto was diluted to 17.2 percent as a result of Auto's initial public offering.

On October 10, 2004, the company reached an agreement with TRW Automotive Holdings Corp. to sell the payment-in-kind note and settle certain other contractual issues arising from the Auto sale. At the date of the agreement, the note, including accrued interest, had a carrying value of \$543 million. The company also resolved

## **NORTHROP GRUMMAN CORPORATION**

an indemnification of other postretirement employee benefits pursuant to the Auto sale agreement, and agreed to pay The Blackstone Group \$52.5 million. As a result of the agreement, the company recorded a \$9 million after-tax charge to continuing operations relating to the sale of the note, and a \$6 million after-tax charge to discontinued operations related to the settlement of the indemnification and other contractual issues. In November 2004, the company received \$493.5 million for the sale of the note, which was net of \$40.5 million for settlement of the contractual issues, and paid \$52.5 million for settlement of the indemnification.

*Goodrich* – The company assumed through its acquisition of TRW certain post-closing liabilities retained by TRW in connection with TRW’s October 2002 sale of its Aeronautical Systems business to Goodrich Corporation (Goodrich). The company and Goodrich agreed to a settlement to resolve certain post-closing liabilities related to warranty, customer claims, and certain other matters in exchange for a payment to Goodrich of \$99 million. This settlement resulted in a fourth quarter 2004 after-tax charge to discontinued operations of \$15 million. The settlement excludes amounts associated with claims that Goodrich may assert against the company relating to the Airbus A380 actuation systems development program and certain other liabilities retained by TRW under the original acquisition agreement.

*Discontinued Operations* – During the third quarter of 2002, the company concluded that the CT businesses, which were acquired as part of the Litton acquisition, did not fit with the company’s long-term plans and decided to sell these businesses. Accordingly, the businesses comprising the CT segment were classified as discontinued operations beginning in the third quarter of 2002. The company sold three of the CT businesses in 2003 and a fourth CT business in 2004. None of these sales, either individually or in the aggregate, had a material effect on the company’s financial position or results of operations. The three remaining CT businesses consist of a manufacturer of complex printed circuit boards, an electronic connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these businesses. Accordingly, the assets, liabilities, and results of operations of these businesses have been reclassified from discontinued to continuing operations for all periods presented. These businesses are reported under the segment entitled “Other.”

*Northrop Grumman Canada* – On December 30, 2004, the company completed the sale of its Canadian navigation systems and space sensors systems businesses for \$65 million in cash, and recorded a \$9 million after-tax gain in discontinued operations. The assets and liabilities as well as the results of operations of the Canadian navigation systems and space sensors systems businesses were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

## **CONTRACTS**

The majority of the company’s business is generated from long-term government contracts for development, production, and service activities. Government contracts typically include the following negotiated cost: direct material, labor and subcontracting costs, and certain indirect costs including allowable general and administrative costs. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are determined under the Federal Acquisition Regulations (FAR) and government CAS as allowable and allocable costs. Examples of costs incurred by the company and not billed to the U.S. Government based on the FAR and CAS unallowable clauses include, but are not limited to: certain legal costs, mark-to-market stock compensation expense, lobbying costs, charitable donations, and advertising costs.

The company’s long-term contracts typically fall into one of two broad categories:

*Cost Reimbursement or Cost-Type Contracts* – Cost-type contracts provide for reimbursement of allowable costs incurred plus a fee that represents profit. Cost-type contracts generally require that the contractor use best efforts to accomplish the scope of the work within some specified time and some stated dollar limitation.

*Fixed-Price Contracts* – A fixed-price contract is a contract in which the price is a pre-determined negotiated amount and not generally subject to adjustment because of costs incurred by the contractor.

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

The following table summarizes 2004 revenue recognized by contract type and customer:

Contract Type (\$ in millions)	U.S. Government	Other Customers	Total	Percent of Total
Cost-Type	\$ 17,813	\$ 525	\$18,338	61%
Fixed-Price	8,153	3,362	11,515	39
Total	\$ 25,966	\$ 3,887	\$29,853	100%

**Contract Fees**

Negotiated contract fee structures, for both cost-type and fixed-price contracts may include, but are not limited to: fixed-fee amounts, cost sharing arrangements to reward or penalize for either under or over cost target performance, positive award fee, and negative penalty arrangements. Profit margins may vary materially depending on the negotiated contract fee arrangements, percentage of completion of the contract, the achievement of performance objectives, and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

**Contract Risk**

Due to their nature, fixed-price contracts inherently have more risk than cost-type contracts and therefore generally carry higher profit margins. Cost-type contracts may carry risk to the extent of their specific contract terms and conditions relating to performance award fees and negative performance incentives. The more significant risk factors relating to the company's contracts are fixed-price development contracts and negative performance incentive provisions included in certain cost-type and fixed-price contracts.

*Fixed-Price Development Contracts* – Fixed-price development work inherently has more uncertainty as to future events than production and therefore more variability in estimates of costs to complete the development stage. As work progresses through the development stage into production, the risks associated with estimating the costs of development are reduced. In addition, successful performance of fixed-price development contracts, which include production units, is subject to the company's ability to control cost growth in meeting production specifications and delivery rates. While management uses its best judgment to estimate costs associated with fixed-price development programs, future events could result in either upward or downward adjustments to those estimates. Examples of the company's significant fixed-price development contracts include the F-16 Block 60 combat avionics program and the MESA radar system for the Australian Defence Force's Project Wedgetail program, both of which are performed by the Electronic Systems segment. It is also not unusual in the Ships segment for the company to negotiate fixed-price production follow-on contracts before the development effort has been completed and learning curves fully realized on existing contracts. Examples of negotiated fixed-price follow-on production options or contracts are the Polar Tanker program and the Virginia-class submarine program.

*Positive Award Fees* – Certain contracts contain provisions consisting of award fee amounts based on performance criteria such as: cost, schedule, quality, and technical ingenuity. Award fees are determined and earned based on the subjective evaluation by the customer of the company's performance against such negotiated criteria. Award fee contracts are widely used throughout the company's operating segments; examples of significant long-term contracts with substantial negotiated award fee amounts are the KEI, NPOESS, F-35, LPD, and DD(X) programs.

*Negative Performance Incentive Provisions* – Certain contracts, primarily involving space satellite systems, contain provisions that entitle the customer to recover fees in the event of partial or complete failure of the system upon launch or subsequent deployment for a specified period of time. Under such terms, the company could be required to forfeit fees previously recognized and/or collected. The company has not experienced any significant losses in the last decade in connection with contract performance incentive provisions. However, if the company were to experience launch failures or complete satellite system failures in the future, such events could have a material impact on the company's financial position, results of operations, or cash flows.

## **NORTHROP GRUMMAN CORPORATION**

### **Compliance and Monitoring**

On a regular basis, the company monitors its policies and procedures with respect to its contracts to ensure consistent application under similar terms and conditions as well as compliance with all applicable government regulations. In addition, costs incurred and allocated to contracts with the U.S. Government are routinely audited by the Defense Contract Audit Agency.

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

The company's significant accounting policies are outlined in Note 1 to the Consolidated Financial Statements (see Part II, Item 8 of this Form 10-K). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as the disclosure of contingent assets and liabilities. Management is responsible for evaluating the propriety of its estimates, judgments, and accounting methods as new events occur. Management believes that its policies, estimates, and judgments have been consistently applied in a manner that provides the reader of the company's financial statements with a fair presentation of information, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Management periodically reviews the company's critical accounting policies, estimates, and judgments with the audit committee of its board of directors. Principal accounting practices that involve a higher degree of judgment or complexity are outlined below.

### **Revenue Recognition**

#### **Overview**

The company generally recognizes revenue from its long-term contracts under the cost-to-cost and the units-of-delivery measures of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. For most contracts, sales are calculated based on the percentage of total costs incurred in relation to total estimated costs at completion of the contract. For certain contracts with large up-front purchases of material, primarily in the Ships segment, sales are generally calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs. The units-of-delivery measure is a modification of the percentage-of-completion method, which recognizes as revenue the contract price of units of a basic production product delivered during a period, and as the cost of product sales the costs allocable to the delivered units; costs allocated to undelivered units are reported in the balance sheet as inventoried costs.

The use of the percentage-of-completion method depends on the ability of the company to make reasonably dependable cost estimates for the design, manufacture, and delivery of its products and services. Such costs are typically incurred over a period of several years, and estimation of these costs requires the use of judgment. Sales under cost-type contracts are recorded as costs are incurred. Revenue relating to service contracts is recognized as the services are performed.

#### **Application of Accounting Principles**

The majority of the company's contracts are accounted for under the provisions of Accounting Research Bulletin No. 45 – *Accounting for Long-Term Construction-Type Contracts*, American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 81-1 – *Accounting for Performance of Construction-Type and Certain Production-Type Contract*, the AICPA Audit and Accounting Guide, *Audits of Federal Government Contractors*, and AICPA SOP No. 97-2 – *Software Revenue Recognition, as amended by SOP 98-9*. These pronouncements apply to contracts for the construction of facilities, production of goods and services provided to the federal government, and arrangements to deliver software or software systems requiring significant production, modification, or customization.

## **NORTHROP GRUMMAN CORPORATION**

### **Cost Estimation**

The cost estimation process requires significant judgment and is based upon the professional knowledge and experience of the company's engineers, program managers, and financial professionals. Factors that are considered in estimating the work to be completed and ultimate contract recovery include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, and the recoverability of any claims included in the estimates to complete. A significant change in an estimate on one or more programs could have a material effect on the company's financial position or results of operations. Contract cost estimates are updated at least annually and more frequently as determined by events or circumstances. Cost and revenue estimates for each significant contract are generally reviewed and reassessed quarterly.

### **Performance Incentives and Award Fees**

Many contracts contain positive and negative profit incentives based upon performance relative to predetermined targets that may occur during or subsequent to delivery of the product. These incentives take the form of potential additional fees to be earned or penalties to be incurred. Incentives and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentives and award fees that cannot be reasonably estimated are recorded when awarded or at such time as a reasonable estimate can be made.

### **Loss Provisions**

When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded to cost of sales in the period the loss is determined. Loss provisions are first offset against costs that are included in inventoried assets, with any remaining amount reflected in liabilities.

### **Other Changes in Estimates**

Other changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates. A significant change in an estimate on one or more programs could have a material effect on the company's financial position or results of operations.

Additional details concerning the company's revenue recognition policy are in Note 1 to the Consolidated Financial Statements in Part II, Item 8.

### **Purchase Accounting and Goodwill**

#### **Overview**

The purchase price of an acquired business is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgments and estimates that can be affected by contract performance and other factors over time that may cause final amounts to differ materially from original estimates. Adjustments to fair value assessments are recorded to goodwill over the purchase price allocation period with the exception of certain adjustments related to income tax uncertainties or restructuring activities, which may extend beyond the purchase price allocation period.

#### **Acquisition Accruals**

The company has established certain accruals in connection with indemnities and other contingencies from its acquisitions and divestitures. These accruals and subsequent adjustments have been recorded during the purchase



## **NORTHROP GRUMMAN CORPORATION**

price allocation period for acquisitions and as events occur for divestitures. The accruals were determined based upon the terms of the purchase or sales agreements and, in most cases, involve a significant degree of judgment. Management has recorded these accruals in accordance with its interpretation of the terms of the purchase or sale agreements, known facts, and an estimation of probable future events based on management's experience and consultation with outside experts.

### **Goodwill**

The company evaluates the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists, in accordance with SFAS No. 142 – *Goodwill and Other Intangibles Assets*. In order to test for potential impairment, the company uses a discounted cash flow analysis, corroborated by comparative market multiples where appropriate.

The principal factors used in the discounted cash flow analysis requiring judgment are the weighted average cost of capital (WACC) and the terminal value growth rate assumptions. The WACC takes into account the relative weights of each component of the company's consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider lower risk profiles associated with longer term contracts and barriers to market entry. The terminal value growth rates are applied to the final year of the discounted cash flow model. The terminal value growth rate used for testing purposes in 2004 approximates the estimated long-term inflation rate.

Due to the many variables inherent in the estimation of a reporting unit's fair value, differences in assumptions may have a material effect on the results of the company's impairment analysis. Differences in assumptions within a range considered by management to be reasonable, applied to the 2004 annual goodwill impairment tests, would not have resulted in a significant adjustment to recorded goodwill.

### **Litigation and Contingencies**

#### **Overview**

In accordance with SFAS No. 5, *Accounting for Contingencies*, amounts are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any such exposure to the company may vary from earlier estimates as further facts and circumstances become known.

The company is subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and its legal counsel. See Note 16 to the Consolidated Financial Statements in Part II, Item 8.

#### **Environmental Accruals**

The company is subject to the environmental laws and regulations of the jurisdictions in which it conducts or conducted operations. The company records an accrual to provide for the costs of expected environmental obligations when management becomes aware that an expenditure will be incurred and the amount of the liability can be reasonably estimated. Factors which could result in changes to the company's environmental accruals and reasonably possible range of loss 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.

**NORTHROP GRUMMAN CORPORATION****Tax Contingency Accruals**

The company records accruals for tax contingencies when it is probable that a liability has been incurred and the amount of the contingency can be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority. Changes in accruals associated with uncertainties arising from pre-acquisition years for acquired businesses are charged or credited to goodwill. Other adjustments to tax accruals are generally recorded in earnings in the period they are determined.

**Retirement Benefits****Overview**

Assumptions used in determining projected benefit obligations and the fair values of plan assets for the company's pension plans and other postretirement benefits plans are regularly evaluated by management in consultation with outside actuaries. In the event that the company determines that changes in the assumptions are warranted, future pension and postretirement benefit expenses could increase or decrease.

**Assumptions**

The principal assumptions that have a significant effect on the company's financial position and results of operations are the discount rate, the expected long-term rate of return on plan assets, and the health care cost trend rates.

*Discount Rate* – The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and postretirement benefit obligations. The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined based on the results of a hypothetical long-term bond portfolio matching the expected cash inflows with the expected benefit payments. Taking into consideration the factors noted above, the company lowered the discount rate to 5.75 percent at December 31, 2004, from 6.25 percent at December 31, 2003.

*Expected Long-Term Rate of Return* – The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested to provide for anticipated benefit payments. For 2004, the company assumed an expected long-term rate of return on plan assets of 8.75 percent. On average, the actual return on plan assets over the long-term has exceeded 8.75 percent; however, for 2005, the expected long-term rate of return assumption was lowered from 8.75 percent to 8.5 percent, reflecting the generally expected moderation of long-term rates of return in the financial markets.

Differences in the discount rate and expected long-term rate of return on plan assets within the indicated range would have had the following impact on 2004 pension and postretirement benefit results:

<i>\$ in millions</i>	.25 Percentage Point Increase	.25 Percentage Point Decrease
Increase (decrease) to pension expense resulting from		
Change in discount rate	\$ (33)	\$ 41
Change in long-term rate of return on plan assets	(42)	42

*Health Care Cost Trend Rates* – The health care cost trend rates represent the annual rate of change in the cost of health care benefits based on estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. The company increased its expected health care cost trend rate to 10 percent for 2004 from 9 percent for 2003.

## [Table of Contents](#)

### NORTHROP GRUMMAN CORPORATION

Differences in the health care cost trend rates within the indicated range would have had the following impact on 2004 postretirement benefit results:

<i>\$ in millions</i>	1 Percentage Point Increase	1 Percentage Point Decrease
Increase (decrease) from change in health care cost trend rates to		
Postretirement benefit expense	\$ 29	\$ (24)
Postretirement benefit liability	352	(293)

### MANAGEMENT FINANCIAL MEASURES

The company manages and assesses the performance of its business primarily through the following measures:

*Contract Acquisitions* – Contract acquisitions represent orders received during the period for which funding has been contractually obligated by the customer. Contract acquisitions tend to fluctuate from year to year and are determined by the size and timing of new and follow-on orders. In the year that a business is purchased, its existing funded order backlog as of the purchase date is reported as contract acquisitions.

*Sales* – Year-to-year sales vary less than contract acquisitions and reflect performance under new and ongoing contracts. For further information related to revenue recognition, refer to the Revenue Recognition discussion included in the “Critical Accounting Policies, Estimates, and Judgments” section of this Part II, Item 7.

*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 pension expense/income that is not currently recognized under CAS, as well as the portion of corporate, legal, environmental, state income tax, other retiree benefits, and other expenses not considered allowable costs under CAS and therefore not allocated to the segments.

*Backlog* – Funded backlog represents unfilled orders for which funding has been contractually obligated by the customer. Unfunded backlog represents firm orders for which funding is not contractually obligated by the customer. Unfunded backlog excludes unexercised contract options and unfunded Indefinite Delivery Indefinite Quantity (IDIQ) orders.

### SEGMENT OPERATING RESULTS

*Realignment* – Effective January 1, 2004, the company realigned businesses among three of 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 information systems and services. Mission Systems’ Global Information Technology, Civil Systems, and Mission Systems Europe businesses were transferred to the Information Technology segment. Prior to January 1, 2004, the three business areas comprised Mission Systems’ Federal & Civil Information Systems business. The Defense Mission Systems (DMS) business within the Information Technology segment was transferred to the Mission Systems segment. Prior to January 1, 2004, DMS was a part of Information Technology’s Government Information Technology business. The Command, Control & Intelligence (C2I) Systems business area of the Missions Systems segment transferred its Unmanned Air Vehicle business to the Air Combat Systems (ACS) business area within the Integrated Systems segment. This realignment resulted in a decrease in 2003 sales of \$104 million for the Information Technology sector, an increase of \$57 million for the Mission Systems sector, and an increase of \$47 million for the Integrated Systems sector. For 2002, this realignment resulted in a decrease in sales of \$764 million for the Information Technology sector and an increase of \$764 million for the Mission Systems sector.

**NORTHROP GRUMMAN CORPORATION**

Certain prior year amounts in the tables within this section have been reclassified to conform to current year reporting.

**Electronic Systems**

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Contract Acquisitions</b>			
Aerospace Systems	\$ 1,393	\$ 1,202	\$ 1,018
C4ISR & Naval Systems	1,377	1,299	1,843
Defensive Systems	1,153	1,018	830
Navigation Systems	886	852	741
Government Systems	856	652	516
Space Systems	486	440	615
Defense Other	555	555	367
	<b>\$ 6,706</b>	<b>\$ 6,018</b>	<b>\$ 5,930</b>
<b>Sales and Service Revenues</b>			
Aerospace Systems	\$ 1,577	\$ 1,621	\$ 1,437
C4ISR & Naval Systems	1,351	1,318	1,225
Defensive Systems	1,060	919	783
Navigation Systems	775	756	668
Government Systems	672	448	476
Space Systems	453	514	437
Defense Other	529	463	300
	<b>\$ 6,417</b>	<b>\$ 6,039</b>	<b>\$ 5,326</b>
<b>Segment Operating Margin</b>	<b>\$ 670</b>	<b>\$ 590</b>	<b>\$ 434</b>
<i>As a percentage of segment sales</i>	<b>10.4%</b>	<b>9.8%</b>	<b>8.1%</b>

**Contract Acquisitions**

2004 – Electronic Systems segment acquisitions increased \$688 million, or 11 percent, in 2004 as compared with 2003. Principal acquisitions during 2004 included \$185 million for a restricted program in the Aerospace Systems business area, \$150 million for the Big Tree program in the C4ISR & Naval Systems business area, and additional funding of \$139 million for domestic and international postal automation programs in the Government Systems business area.

2003 – Electronic Systems segment acquisitions increased \$88 million, or 1 percent, in 2003 as compared with 2002. Principal acquisitions during 2003 included \$224 million for the SBIRS High program in the Space Systems business area, \$187 million for the MESA 737 Turkey acquisition in the Aerospace Systems business area, \$181 million and \$144 million for the Trident SSGN and Virginia-class submarine programs, respectively, in the C4ISR & Naval Systems business area, and \$145 million for the MP-RTIP program included in the Other business area.

**Sales and Service Revenues**

2004 – Electronic Systems segment sales increased \$378 million, or 6 percent, in 2004 as compared with 2003. Government Systems revenue increased \$224 million, or 50 percent, due to higher sales of bio-detection systems and postal automation equipment, and Defensive Systems revenue rose \$141 million, or 15 percent, due to higher sales from the Litening program. Defense Other revenue increased \$66 million, or 14 percent, due to growth in restricted programs.

## **NORTHROP GRUMMAN CORPORATION**

For 2005, management expects high single-digit percentage sales growth over 2004.

2003 – Electronic Systems segment sales increased \$713 million, or 13 percent, in 2003 as compared with 2002. Aerospace Systems revenue increased \$184 million, or 13 percent, due to increased volume on the F-35, F-16 Block 60, F/A-22, and avionics restricted programs. Defensive Systems sales increased \$136 million, or 17 percent, in 2003 over 2002 primarily due to higher volume on the ALQ-135, Large Aircraft Infrared Countermeasures, MH-53, and Litening programs. The 2003 increase of \$163 million in the Defense Other business area was primarily due to higher volume on the MP-RTIP program.

### **Segment Operating Margin**

2004 – Electronic Systems segment operating margin increased \$80 million, or 14 percent, in 2004 as compared with 2003. Operating margin in 2004 increased primarily due to increased sales volume and performance improvements in the postal automation business and bio-detection systems in the Government Systems business area, as well as higher sales volume, improved performance, and contract close-outs in the Defensive Systems and Defense Other business areas. These increases were partially offset by a \$60 million pre-tax charge in the Aerospace Systems business area for the F-16 Block 60 fixed-price development combat avionics program, reflecting a higher estimate of costs to complete the “Falcon Edge” electronic warfare suite, including the results of qualification testing and the impact of delays in supplies of integrated microelectronic assemblies, and a \$52 million pre-tax charge reflecting increased projected costs due to analysis of technical issues following systems engineering modeling and qualification testing for the MESA radar system for the Australian Defence Force’s Project Wedgetail fixed-price development program. Fixed-price development work inherently has more uncertainty as to future events than production and therefore more variability in estimates of costs to complete the work. As work progresses through the development stage into production, the risks associated with estimating the costs of development are reduced. While management has used its best judgment to estimate costs, future events could result in either upward or downward adjustments to those estimates. The F-16 Block 60 program is expected to be completed in 2007 and the Wedgetail program is expected to be completed in 2008.

For 2005, management expects moderate improvement in segment operating margin as a percentage of segment sales over 2004.

2003 – Electronic Systems segment operating margin increased \$156 million, or 36 percent, in 2003 as compared with 2002. The increase in operating margin in 2003 was primarily due to increased sales volume in Aerospace Systems’ F/A-22, F-35, and several restricted programs, as well as increased volume in the C4ISR & Naval Systems marine systems business. The Defensive Systems and Navigation Systems business areas also reported higher sales and improved operating performance. Operating margin for 2003 included a \$40 million pre-tax charge for the F-16 Block 60 fixed-price development combat avionics program due to cost growth associated with developing and acquiring the advanced microelectronics necessary to meet production specifications and delivery rates.

## NORTHROP GRUMMAN CORPORATION

## Ships

	Year ended December 31		
<i>\$ in millions</i>	2004	2003	2002
<b>Contract Acquisitions</b>			
Surface Combatants	\$1,807	\$1,569	\$1,641
Aircraft Carriers	1,538	941	1,622
Amphibious and Auxiliary	983	1,301	1,184
Submarines	1,228	895	828
Commercial and International	41	31	(4)
Services and Other	135	193	94
Intrasegment eliminations	(64)	(91)	(79)
	<b>\$5,668</b>	<b>\$4,839</b>	<b>\$5,286</b>
<b>Sales and Service Revenues</b>			
Surface Combatants	\$2,010	\$1,594	\$ 875
Aircraft Carriers	1,901	1,922	2,076
Amphibious and Auxiliary	1,436	1,069	845
Submarines	730	627	581
Commercial and International	123	123	224
Services and Other	143	163	194
Intrasegment eliminations	(91)	(47)	(98)
	<b>\$6,252</b>	<b>\$5,451</b>	<b>\$4,697</b>
<b>Segment Operating Margin</b>	<b>\$ 389</b>	<b>\$ 295</b>	<b>\$ 306</b>
<i>As a percentage of segment sales</i>	<b>6.2%</b>	<b>5.4%</b>	<b>6.5%</b>

**Contract Acquisitions**

2004 – Ships segment acquisitions increased \$829 million, or 17 percent, in 2004 as compared with 2003, primarily due to increased funding in the Aircraft Carriers and Submarines business areas. The principal acquisitions in 2004 were \$1.1 billion for the Virginia-class submarines program in the Submarines business area, and \$1 billion and \$524 million for the DD(X) and DDG programs, respectively, in the Surface Combatants business area. Acquisitions in 2004 also included \$583 million and \$397 million, respectively, for the LPD and LHD programs in the Amphibious and Auxiliary business area.

2003 – Ships segment acquisitions decreased \$447 million, or 8 percent, in 2003 as compared with 2002, primarily due to lower incremental funding received in 2003 for aircraft carrier refueling work. The principal acquisitions in 2003 were \$1.2 billion for the LPD program in the Amphibious and Auxiliary business area, and \$877 million and \$531 million related to the DD(X) and DDG programs, respectively, in the Surface Combatants business area.

**Sales and Service Revenues**

2004 – Ships segment sales increased \$801 million, or 15 percent, in 2004 as compared with 2003 due to higher revenue in the Surface Combatants, Amphibious and Auxiliary, and Submarines business areas. Surface Combatants revenue increased \$416 million, or 26 percent, due to higher revenue from the DD(X) and Deepwater programs partially offset by lower revenue from the DDG program. Amphibious and Auxiliary revenue increased \$367 million, or 34 percent, due to higher revenue from the LHD and LPD programs, and Submarines revenue increased \$103 million, or 16 percent, due to higher sales from the Virginia-class program.

For 2005, management expects a mid to high single-digit percentage sales decline as compared to 2004.

**NORTHROP GRUMMAN CORPORATION**

2003 – Ships segment sales increased \$754 million, or 16 percent, in 2003 as compared with 2002. This growth included a \$719 million increase for the Surface Combatants business area, which was primarily due to increased sales for the DD(X) and Deepwater programs. Amphibious and Auxiliary experienced an increase in sales during 2003 of \$224 million due to production ramp-up on the LPD 18, LPD 19, and LHD 8 programs. The \$154 million decrease in 2003 for Aircraft Carriers as compared to 2002 was largely due to the completion and delivery of the *USS Ronald Reagan*.

**Segment Operating Margin**

2004 – Ships segment operating margin increased \$94 million, or 32 percent, in 2004 as compared with 2003, due principally to a 2003 pre-tax charge of \$69 million for increased costs for the commercial Polar Tanker program, as well as increased sales volume and performance improvements in 2004 for the DD(X) and LHD programs in the Surface Combatants and Amphibious and Auxiliary business areas, respectively. The Polar Tanker charge included cost growth on the third tanker due to unusual weather delays and rework, and increased costs for changes in labor productivity estimates to complete the final two ships. The third tanker was delivered in the third quarter of 2003, the fourth tanker was delivered in the third quarter of 2004, and the fifth and final tanker is approximately 80 percent complete as of December 31, 2004, and is scheduled for delivery in the fourth quarter of 2005.

For 2005, management expects segment operating margin as a percentage of segment sales to be in the low 7 percent range.

2003 – Ships segment operating margin decreased \$11 million, or 4 percent, in 2003 as compared with 2002. The decrease included both a changing mix from production to development programs as well as the \$69 million pre-tax charge for the Polar Tanker program discussed above.

**Information Technology**

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Contract Acquisitions</b>			
Government Information Technology	\$3,087	\$2,786	\$2,269
Enterprise Information Technology	881	872	766
Commercial Information Technology	770	698	588
Technology Services	688	611	621
Intrasegment eliminations	(126)	(113)	(104)
	<b>\$5,300</b>	<b>\$4,854</b>	<b>\$4,140</b>
<b>Sales and Service Revenues</b>			
Government Information Technology	\$3,004	\$2,625	\$1,948
Enterprise Information Technology	867	857	750
Commercial Information Technology	656	665	288
Technology Services	650	617	590
Intrasegment eliminations	(126)	(113)	(100)
	<b>\$5,051</b>	<b>\$4,651</b>	<b>\$3,476</b>
<b>Segment Operating Margin</b>	<b>\$ 301</b>	<b>\$ 269</b>	<b>\$ 191</b>
<i>As a percentage of segment sales</i>	<b>6.0%</b>	<b>5.8%</b>	<b>5.5%</b>

**Contract Acquisitions**

2004 – Information Technology segment acquisitions increased \$446 million, or 9 percent, in 2004 as compared with 2003, largely due to increased funding in the Government Information Technology and Commercial Information Technology business areas. Principal acquisitions in 2004 in the Government Information Technology business area were \$138 million for the National Geospatial Intelligence Agency Electrical

## **NORTHROP GRUMMAN CORPORATION**

Engineering program, \$104 million for the Immigration and Naturalization Service Technology Enterprise Automation Management Support program, and \$104 million for the Information Technology Support Services program. The Commercial Information Technology business area received funding of \$231 million for the Identification 1 program. The Technology Services business area received funding of \$283 million for the Joint Base Operations Support Contract (J-BOSC).

2003 – Information Technology segment acquisitions increased \$714 million, or 17 percent, in 2003 as compared with 2002, largely due to strong growth in the Government Information Technology business area. Principal acquisitions in 2003 in the Government Information Technology business area were \$104 million for the Information Technology Support Services program, \$98 million for Voyager, and \$92 million for the Immigration and Naturalization Service Technology Enterprise Automation Management Support program. The Commercial Information Technology business area received funding of \$120 million in connection with Vought. The Technology Services business area received funding of \$255 million for J-BOSC.

### **Sales and Service Revenues**

2004 – Information Technology segment sales increased \$400 million, or 9 percent, in 2004 as compared with 2003 primarily due to higher revenue in the Government Information Technology and Technology Services business areas. Government Information Technology revenue increased \$379 million, or 14 percent, due to new business awards, including \$93 million for the National Geospatial Intelligence Agency Electrical Engineering program and \$45 million for the Defense Integrated Military Human Resources System program. Technology Services revenue increased \$33 million, or 5 percent, due to higher sales volume from the B-2 program.

For 2005, management expects nearly double-digit percentage sales growth over 2004.

2003 – Information Technology segment sales increased \$1.2 billion, or 34 percent, in 2003 as compared with 2002. The higher sales were primarily attributable to a \$677 million increase in the Government Information Technology business area due to increased volume on the Immigration and Naturalization Service Technology Enterprise Automation Management Support, Information Technology Support Services, and Land Information Warfare Activity programs. Enterprise Information Technology sales were \$107 million higher than 2002 due, in part, to increased purchases by the Department of Homeland Security.

### **Segment Operating Margin**

2004 – Information Technology segment operating margin increased \$32 million, or 12 percent, in 2004 as compared with 2003 due to higher sales volume and improved performance in the Government Information Technology and Enterprise Information Technology business areas.

For 2005, segment operating margin as a percentage of segment sales is expected to be in the mid 6 percent range.

2003 – Information Technology segment operating margin increased \$78 million, or 41 percent, in 2003 as compared with 2002. The increase was primarily attributable to higher sales volume in the Government Information Technology business area.



**NORTHROP GRUMMAN CORPORATION****Mission Systems**

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Contract Acquisitions</b>			
Command, Control & Intelligence Systems	\$3,008	\$2,987	\$1,644
Missile Systems	1,532	1,255	973
Technical and Management Services	680	678	382
Intrasegment eliminations	(11)	(42)	(34)
	<b>\$5,209</b>	<b>\$4,878</b>	<b>\$2,965</b>
<b>Sales and Service Revenues</b>			
Command, Control & Intelligence Systems	\$3,014	\$2,423	\$ 764
Missile Systems	1,288	1,082	
Technical and Management Services	699	700	
Intrasegment eliminations	(54)	(33)	
	<b>\$4,947</b>	<b>\$4,172</b>	<b>\$ 764</b>
<b>Segment Operating Margin</b>	<b>\$ 321</b>	<b>\$ 266</b>	<b>\$ 59</b>
<i>As a percentage of segment sales</i>	<b>6.5%</b>	<b>6.4%</b>	<b>7.7%</b>

**Contract Acquisitions**

2004 – Mission Systems segment acquisitions increased \$331 million, or 7 percent, in 2004 as compared with 2003, primarily due to increased funding in the Missile Systems business area. The principal acquisitions in 2004 included \$1 billion for the ICBM Prime Integration contract in the Missile Systems business area and \$133 million for restricted programs in the Command, Control & Intelligence Systems business area.

2003 – Mission Systems segment acquisitions during 2003 included several new business awards for restricted programs in the Command, Control & Intelligence Systems business area and the Kinetic Energy Interceptors contract awarded to the Missile Systems business area. Acquisitions for these two business areas accounted for over \$4.2 billion, or 87 percent, of total 2003 acquisitions. Acquisitions for 2002 represented backlog acquired as of the acquisition date of TRW.

**Sales and Service Revenues**

2004 – Mission Systems segment sales increased \$775 million, or 19 percent, in 2004 as compared with 2003 due to higher revenue in the Command, Control & Intelligence Systems and Missile Systems business areas. Command, Control & Intelligence Systems revenue increased \$591 million, or 24 percent, due to higher revenue from the Tactical Automated Security Systems II program and from various restricted programs. Missile Systems revenue increased \$206 million, or 19 percent, due to revenue from the Kinetic Energy Interceptors program and the XonTech acquisition.

For 2005, management expects mid single-digit percentage sales growth over 2004.

2003 – Approximately \$3.5 billion, or 84 percent, of 2003 sales were from the Command, Control & Intelligence Systems and Missile Systems business areas. The principal programs in the Command, Control & Intelligence Systems business area during 2003 were restricted. Missile Systems sales for 2003 were principally due to such programs as the ICBM Prime Integration contract, Ground-based Midcourse Defense, and the Joint National Integration Center .

**Segment Operating Margin**

2004 – Mission Systems segment operating margin increased \$55 million, or 21 percent, in 2004 as compared with 2003 due to higher sales volume in the Command, Control & Intelligence Systems and Missile Systems business areas.

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

For 2005, management expects moderate improvement in segment operating margin as a percentage of segment sales over 2004.

2003 – Approximately \$247 million, or 93 percent, of 2003 operating margin was derived from the Command, Control & Intelligence Systems and Missile Systems business areas.

**Integrated Systems**

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Contract Acquisitions</b>			
Air Combat Systems	\$3,165	\$2,768	\$2,158
Airborne Early Warning and Electronic Warfare Systems	1,363	1,051	832
Airborne Ground Surveillance and Battle Management Systems	612	565	526
Intrasegment eliminations	(5)	(4)	(1)
	<b>\$5,135</b>	<b>\$4,380</b>	<b>\$3,515</b>
<b>Sales and Service Revenues</b>			
Air Combat Systems	\$2,874	\$2,469	\$1,915
Airborne Early Warning and Electronic Warfare Systems	1,273	841	759
Airborne Ground Surveillance and Battle Management Systems	600	541	600
Intrasegment eliminations	(5)	(4)	(1)
	<b>\$4,742</b>	<b>\$3,847</b>	<b>\$3,273</b>
<b>Segment Operating Margin</b>	<b>\$ 412</b>	<b>\$ 384</b>	<b>\$ 331</b>
<i>As a percentage of segment sales</i>	<b>8.7%</b>	<b>10.0%</b>	<b>10.1%</b>

**Contract Acquisitions**

2004 – Integrated Systems segment acquisitions increased \$755 million, or 17 percent, in 2004 as compared with 2003. The increase is mainly due to increased funding in the Air Combat Systems and Airborne Early Warning and Electronic Warfare Systems business areas. The principal acquisitions for Air Combat Systems during 2004 were \$792 million, \$709 million, and \$606 million for the Unmanned Systems, F/A-18, and F-35 programs, respectively. The principal acquisitions in the Airborne Early Warning and Electronic Warfare Systems and Airborne Ground Surveillance and Battle Management Systems business areas during 2004 were \$881 million and \$248 million for the E-2C and E-10A programs, respectively.

2003 – Integrated Systems segment acquisitions increased \$865 million, or 25 percent, in 2003 as compared with 2002. The increase was mainly due to higher acquisitions for the F-35 and Global Hawk programs, both included in the Air Combat Systems business area. The principal acquisitions for Air Combat Systems during 2003 were \$777 million, \$799 million, and \$613 million for the F/A-18, Unmanned Systems, and F-35 programs, respectively. The principal acquisitions in the Airborne Early Warning and Electronic Warfare Systems and the Airborne Ground Surveillance and Battle Management Systems business areas during 2003 were \$576 million and \$406 million for the E-2C and Joint STARS programs, respectively.

**Sales and Service Revenues**

2004 – Integrated Systems segment sales increased \$895 million, or 23 percent, in 2004 as compared with 2003 due to higher revenue in all business areas. Airborne Early Warning and Electronic Warfare Systems revenue increased \$432 million, or 51 percent, due to higher revenue from the E-2 Advanced Hawkeye and EA-18 programs; Air Combat Systems revenue increased \$405 million, or 16 percent, due to higher revenue from the F-35 program and Unmanned Systems; and Airborne Ground Surveillance and Battle Management Systems revenue increased \$59 million, or 11 percent, due to higher revenue from the E-10A program.

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

For 2005, management expects low to mid teens percentage growth in sales over 2004.

2003 – Integrated Systems segment sales increased \$574 million, or 18 percent, in 2003 as compared with 2002. Growth in 2003 principally included a \$554 million increase in Air Combat Systems due to increased volume on the F-35, Global Hawk, and MP-RTIP programs, and \$82 million in Airborne Early Warning and Electronic Warfare Systems related to the Advanced Hawkeye program. The sales decrease in 2003 of \$59 million in the Airborne Ground Surveillance and Battle Management Systems business area was mainly due to fewer Joint STARS aircraft in production.

**Segment Operating Margin**

2004 – Integrated Systems segment operating margin increased \$28 million, or 7 percent, in 2004 as compared with 2003. The increase was due primarily to higher sales volume in the Unmanned Systems and E-2 Advanced Hawkeye programs. The decrease in the Integrated Systems segment operating margin rate was due to a greater proportion of lower-margin development program revenue.

For 2005, management expects segment operating margin as a percentage of segment sales in the low to mid 8 percent range.

2003 – Integrated Systems segment operating margin increased \$53 million, or 16 percent, in 2003 as compared with 2002. The increase in operating margin in 2003 included increased sales volume from the F-35 and Global Hawk programs and improved operating performance on the E-2C program, partially offset by lower sales volume from the Joint STARS program.

**Space Technology**

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Contract Acquisitions</b>			
Intelligence, Surveillance, & Reconnaissance	\$1,357	\$ 827	\$ 540
Civil Space	659	584	133
Software Defined Radios	520	638	148
Satellite Communications	398	532	230
Missile & Space Defense	400	316	206
Technology	226	241	51
Intrasegment eliminations	(100)	(65)	
	<b>\$3,460</b>	<b>\$3,073</b>	<b>\$1,308</b>
<b>Sales and Service Revenues</b>			
Intelligence, Surveillance, & Reconnaissance	\$1,041	\$ 881	
Civil Space	638	521	
Software Defined Radios	546	387	
Satellite Communications	486	472	
Missile & Space Defense	389	405	
Technology	221	203	
Intrasegment eliminations	(52)	(46)	
	<b>\$3,269</b>	<b>\$2,823</b>	
<b>Segment Operating Margin</b>	<b>\$ 222</b>	<b>\$ 193</b>	
<i>As a percentage of segment sales</i>	<b>6.8%</b>	<b>6.8%</b>	

## **NORTHROP GRUMMAN CORPORATION**

### **Contract Acquisitions**

2004 – Space Technology segment acquisitions increased \$387 million, or 13 percent, in 2004 as compared with 2003. This increase was primarily due to increased funding for restricted programs in the Intelligence, Surveillance & Reconnaissance business area.

2003 – Space Technology segment acquisitions during 2003 primarily included \$827 million in the Intelligence, Surveillance & Reconnaissance business area, \$475 million related to NPOESS in the Civil Space business area, \$287 million related to the F/A-22 program in the Software Defined Radios business area, and \$502 million related to additional funding for the AEHF satellite in the Satellite Communications area. Acquisitions for 2002 included backlog acquired as of the acquisition date of TRW.

### **Sales and Service Revenues**

2004 – Space Technology sales increased \$446 million, or 16 percent, in 2004 as compared with 2003 due to higher revenue in the Intelligence, Surveillance & Reconnaissance, Software Defined Radios, and Civil Space business areas. Intelligence, Surveillance & Reconnaissance revenue increased \$160 million, or 18 percent, due to increased volume from restricted programs. Software Defined Radios revenue increased \$159 million, or 41 percent, due to higher revenue from the F-35 and F/A-22 programs. Civil Space revenue increased \$117 million, or 22 percent, due to higher volume from the JWST and NPOESS programs.

For 2005, management expects a low single-digit percentage sales decline as compared to 2004.

2003 – Intelligence, Surveillance & Reconnaissance sales for 2003 were primarily from restricted programs. Approximately \$412 million, or 79 percent, of Civil Space sales were due to the NPOESS program. Sales for the Software Defined Radios business area included \$135 million and \$127 million related to the F-35 and F/A-22 programs, respectively. Approximately \$440 million, or 93 percent, of Satellite Communications sales was due to the AEHF program. Missile & Space Defense sales for 2003 include \$234 million and \$122 million related to the STSS Cycle I and ABL programs, respectively.

### **Segment Operating Margin**

2004 – Space Technology segment operating margin increased \$29 million, or 15 percent, in 2004 as compared with 2003. This increase was driven primarily by increased volume and performance improvements on restricted programs in the Intelligence, Surveillance & Reconnaissance business area. Other significant increases in segment operating margin in 2004 were driven by increased sales volume from the F-35 and F/A-22 programs in the Software Defined Radios business area and the JWST and NPOESS programs in the Civil Space business area.

For 2005, management expects segment operating margin as a percentage of segment sales to be in the low 7 percent range.

2003 – Operating margin for the Space Technology segment in 2003 was \$193 million, or 7 percent, driven by strong margin performance in the Software Defined Radios and Intelligence, Surveillance & Reconnaissance business areas, and increased sales volume in all business areas.

### **NON-SEGMENT FACTORS AFFECTING OPERATING MARGIN**

The company's operations substantially changed as a result of the TRW acquisition on December 11, 2002. The company's 2002 income statement does not include TRW's post-acquisition results because they were not material. The 2002 results reflect the first full year of operations of Litton, EIS, and Newport News, which were acquired in 2001. These acquisitions have significantly increased the size of the company and produced one of the largest defense contractors in the nation.

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

The components of operating margin are as follows:

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Operating Margin</b>			
Electronic Systems	\$ 670	\$ 590	\$ 434
Ships	389	295	306
Information Technology	301	269	191
Mission Systems	321	266	59
Integrated Systems	412	384	331
Space Technology	222	193	
Other	(3)	(74)	(271)
Non-segment factors affecting operating margin			
Unallocated expenses	(282)	(137)	(105)
Pension (expense) income	(350)	(568)	90
Reversal of CAS pension expense included above	338	265	100
Reversal of royalty income included above	(12)	(15)	(15)
<b>Total operating margin</b>	<b>\$2,006</b>	<b>\$1,468</b>	<b>\$1,120</b>

Operating margin as a percentage of total revenue was 6.7 percent, 5.6 percent, and 6.4 percent for 2004, 2003, and 2002, respectively. The primary factors affecting operating margin during these periods were the business acquisitions, operating segment performance, and changes in unallocated expenses and pension amounts.

**Unallocated Expenses**

2004 – Unallocated expenses increased \$145 million in 2004 as compared with 2003. The increase was due primarily to increased legal costs, including provisions related to the resolution of the Allison Gas Turbine and Robinson litigation (see Note 16 to the Consolidated Financial Statements in Part II, Item 8), as well as higher mark-to-market stock compensation expense and deferred state income taxes.

2003 – Unallocated expenses increased \$32 million in 2003, net of a \$17 million gain on the settlement of legal matters, as compared with 2002. The increase was due primarily to higher legal costs and increased estimates of unrecoverable costs. In 2003, the company settled two previously reserved civil False Claims Act cases, U.S. v. Newport News Shipbuilding, Inc. and U.S. Ex rel. Jordan, and recorded loss provisions for settlement offers on other legal matters, resulting in a net gain of \$17 million. The two settled cases required payments by the company of approximately \$80 million.

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

## **NORTHROP GRUMMAN CORPORATION**

### **Pension (Expense) Income**

2004 – Pension expense decreased \$218 million in 2004 as compared with 2003. The decrease is primarily due to a higher return of more than 20 percent on plan assets in 2003, which improved the funded status of the company's pension plans, partially offset by lower 2004 assumptions for the expected long-term rate of return on plan assets and the discount rate.

Pension expense is included in the sectors' cost of sales to the extent that these costs are currently recognized under CAS. In order to reconcile from segment operating margin to total operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above."

For 2005, subject to refinements for participant census data and pay-as-you-go plans, management expects pension expense determined in accordance with accounting principles generally accepted in the United States of America to total approximately \$415 million. Pension expense recognized under CAS, which is generally recoverable under government contracts, is estimated to be \$365 million for 2005. Based on expected long-term returns available in the capital markets and lower long-term interest rates, the 2005 pension plan assumptions have been changed from the 2004 assumptions. The 2005 assumptions include an expected long-term rate of return on plan assets of 8.5 percent and a discount rate of 5.75 percent compared with the 2004 assumptions of 8.75 percent and 6.25 percent, respectively.

2003 – Operating margin in 2003 included pension expense of \$568 million as compared with pension income in 2002 of \$90 million. The increased pension expense was primarily due to a higher number of plan participants resulting from the acquisition of TRW as well as a negative return on plan assets of 10 percent in 2002.

Beginning in July 2003, the pension benefits for most employees, principally those participating in Northrop Grumman and Litton heritage plans, were based upon new criteria, whereby employees earn age and service points over the employment period. Subsequent to the 2003 initial phase-in, other exempt and non-exempt plans have been and continue to be conformed to the new model. No settlement or curtailments arose as a result of these changes. Union plans were not affected by these plan modifications.

### **OTHER INCOME STATEMENT COMPONENTS**

#### **Interest Income**

2004 – Interest income in 2004 is comparable to 2003. Interest income for both years primarily included non-cash interest earned on the payment-in-kind note received in connection with the sale of Auto. On October 10, 2004, the company reached an agreement with TRW Automotive Holdings Corp. regarding the repurchase of the payment-in-kind note, at which time accrual of interest income from the note ceased.

2003 – Interest income increased \$49 million in 2003 as compared to 2002. The increase is primarily due to non-cash interest earned on the payment-in-kind note received in connection with the sale of Auto, interest earned on a tax refund, and interest earned on the temporary investment of excess cash.

#### **Interest Expense**

2004 – Interest expense decreased by \$66 million in 2004 as compared with 2003. The decrease is principally due to the effect of the company's debt reduction plan that was substantially completed in the second quarter of 2003. Also, on October 15, 2004, \$350 million of 8.625 percent notes matured and the company redeemed all of its outstanding \$250 million 9.375 percent debentures due in 2024. The decrease in interest expense related to the reduction of fixed-rate debt was partially offset by dividends payable on mandatorily redeemable preferred stock classified as interest expense beginning in the third quarter of 2003. This classification was required, on a prospective basis, upon the adoption of SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.

## **NORTHROP GRUMMAN CORPORATION**

2003 – Interest expense increased by \$75 million in 2003 as compared with 2002. The increase was principally the result of higher debt levels arising from the acquisition of TRW, net of the effect of the company's debt reduction plan, which was substantially completed in the second quarter of 2003.

### **Income Taxes**

2004 – The company's effective tax rate on income from continuing operations for 2004 was 32 percent compared to 28 percent for 2003. The higher rate in 2004 is primarily due to the reduced effect of research and development tax credits. The company recognized research and development tax credits of \$20 million and \$51 million for the years ended December 31, 2004, and 2003, respectively. The effective tax rate for 2005 is expected to be between 33 and 34 percent.

2003 – The company's effective tax rate on income from continuing operations for 2003 was 28 percent compared to 38 percent during 2002. The lower rate in 2003 was primarily due to higher research tax credits.

### **Discontinued Operations**

2004 – The company reported after-tax income from discontinued operations of \$3 million for 2004, compared to after-tax income of \$64 million for the same period of 2003. The income for the 2003 period was primarily attributable to Auto operating results, which were included in discontinued operations until Auto was sold in February 2003.

The businesses comprising the CT reporting segment were classified as discontinued operations beginning in the third quarter of 2002, and subsequently the company has sold all but three of these businesses. The remaining unsold businesses are a manufacturer of complex printed circuit boards and assemblies, an electronic connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these remaining businesses and they were reclassified from discontinued to continuing operations. The operating results of these businesses are reported under the segment entitled "Other."

As a result of the reclassification, sales for 2003 increased \$191 million and income from continuing operations before cumulative effect of accounting change for 2003 decreased \$50 million. Income from continuing operations before cumulative effect of accounting change for 2003 includes a charge of \$31 million for the adjustment to fair market value of the remaining CT businesses reclassified from discontinued to continuing operations. The reclassification decreased 2003 diluted earnings per share from continuing operations to \$2.03 from \$2.16.

Effective January 1, 2005, two of these operations were integrated into, and reported under, the Electronic Systems segment. The European-based marketing group will continue to be reported under "Other." The effect of this realignment on the Electronic Systems segment's sales and operating margin is not significant.

2003 – The company reported after-tax income from discontinued operations of \$64 million, net of a goodwill impairment charge of \$47 million, during 2003. The \$44 million after-tax gain from disposal of discontinued operations is primarily attributable to the sale of two CT businesses. The gain (loss) on disposal of discontinued operations includes any gain or loss from completed dispositions, as well as the estimated loss from those businesses expected to be sold at a loss, where the sale had not yet been completed. Gains realized on the sale of any discontinued businesses are reported in the period in which the divestiture is complete.

### **Cumulative Effect of Accounting Change**

Effective January 1, 2002, the company adopted SFAS No. 142 – *Goodwill and Other Intangible Assets*, which implemented required disclosure provisions and eliminated the amortization of goodwill. During the second quarter of 2002, the company completed the first step of the required initial test for potential impairment of

**NORTHROP GRUMMAN CORPORATION**

goodwill as of January 1, 2002. The company used a discounted cash flow approach, corroborated by comparative market multiples, where appropriate, to determine the fair value of its reporting units. The results indicated potential impairment only in the reporting units of the CT segment due to unfavorable market conditions. During the third quarter of 2002, the company completed the measurement of the CT goodwill impairment as of January 1, 2002, and recorded a noncash, after-tax charge of \$432 million, or \$1.87 per diluted share, which is reported as "Cumulative effect of accounting change."

**BACKLOG**

Total backlog at December 31, 2004, was approximately \$58 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 Indefinite Delivery/Indefinite Quantity (IDIQ) orders. Major awards in unfunded backlog include the Kinetic Energy Interceptors program in the Mission Systems segment, the Virginia-class submarines program second block in the Ships segment, the NPOESS program in the Space Technology segment, the F-35 and E-2 Advanced Hawkeye programs in the Integrated Systems segment, and the J-BOSC program in the Information Technology segment.

The following table presents funded and unfunded backlog by segment at December 31, 2004:

<i>\$ in millions</i>	<b>Funded</b>	Unfunded	Total Backlog
Electronic Systems	<b>\$ 6,757</b>	\$ 2,290	\$ 9,047
Ships	<b>9,165</b>	3,841	13,006
Information Technology	<b>2,568</b>	3,358	5,926
Mission Systems	<b>3,167</b>	7,450	10,617
Integrated Systems	<b>4,691</b>	5,984	10,675
Space Technology	<b>1,749</b>	7,595	9,344
Other	<b>49</b>		49
Intersegment eliminations	<b>(584)</b>		(584)
<b>Total Segments</b>	<b>\$27,562</b>	\$ 30,518	\$58,080

Backlog is converted into the following years' sales as costs are incurred or deliveries are made. Approximately 64 percent of the 2004 year-end funded backlog is expected to be converted into sales in 2005. Total U.S. Government orders, including those made on behalf of foreign governments (FMS), comprised 86 percent, 87 percent, and 84 percent of the funded backlog at the end of 2004, 2003, and 2002, respectively. Total foreign customer orders, including FMS, accounted for 8 percent, 9 percent, and 13 percent of the funded backlog at the end of 2004, 2003, and 2002, respectively. Domestic commercial backlog represented 5 percent, 6 percent, and 5 percent of funded backlog at the end of 2004, 2003, and 2002, respectively.



[Table of Contents](#)
**NORTHROP GRUMMAN CORPORATION**

Funded backlog by business area with each segment is provided in the following table:

	December 31,	
<i>\$ in millions</i>	2004	2003
<b>Electronic Systems</b>		
Aerospace Systems	\$ 1,790	\$ 1,974
C4ISR & Naval Systems	1,388	1,362
Defensive Systems	1,250	1,157
Navigation Systems	1,013	902
Government Systems	796	612
Space Systems	223	190
Defense Other	297	271
	<b>6,757</b>	<b>6,468</b>
<b>Ships</b>		
Surface Combatants	3,058	3,261
Aircraft Carriers	2,571	2,934
Amphibious and Auxiliary	1,897	2,350
Submarines	1,568	1,070
Commercial and International	39	121
Services and Other	49	57
Intrasegment eliminations	(17)	(44)
	<b>9,165</b>	<b>9,749</b>
<b>Information Technology</b>		
Government Information Technology	1,434	1,351
Enterprise Information Technology	160	146
Commercial Information Technology	690	576
Technology Services	284	246
	<b>2,568</b>	<b>2,319</b>
<b>Mission Systems</b>		
Command, Control & Intelligence Systems	1,438	1,444
Missile Systems	1,390	1,146
Technical and Management Services	341	360
Intrasegment eliminations	(2)	(45)
	<b>3,167</b>	<b>2,905</b>
<b>Integrated Systems</b>		
Air Combat Systems	2,597	2,306
Airborne Early Warning and Electronic Warfare Systems	1,566	1,476
Airborne Ground Surveillance and Battle Management Systems	528	516
	<b>4,691</b>	<b>4,298</b>
<b>Space Technology</b>		
Intelligence, Surveillance, & Reconnaissance	802	486
Civil Space	217	196
Software Defined Radios	373	399
Satellite Communications	202	290
Missile & Space Defense	128	117
Technology	94	89
Intrasegment eliminations	(67)	(19)
	<b>1,749</b>	<b>1,558</b>
<b>Other</b>		
Intersegment eliminations	(584)	(432)
<b>Total funded backlog</b>	<b>\$27,562</b>	<b>\$26,928</b>

**NORTHROP GRUMMAN CORPORATION****LIQUIDITY AND CAPITAL RESOURCES****Contractual Obligations**

The following table presents the company's contractual obligations as of December 31, 2004, and the estimated timing of future cash payments:

<i>\$ in millions</i>	<b>Total</b>	<b>2005</b>	<b>2006 - 2007</b>	<b>2008 - 2009</b>	<b>2010 and beyond</b>
Long-term debt (fixed rate)	<b>\$ 5,068</b>	<b>\$ 33</b>	<b>\$1,284</b>	<b>\$ 580</b>	<b>\$ 3,171</b>
Interest payments on long-term debt	<b>4,181</b>	343	594	557	2,687
Operating leases	<b>1,819</b>	386	532	383	518
Purchase obligations <sup>(1)</sup>	<b>8,437</b>	5,714	1,922	340	461
Other long-term liabilities <sup>(2)</sup>	<b>714</b>	185	282	53	194
<b>Total contractual obligations</b>	<b>\$20,219</b>	<b>\$6,661</b>	<b>\$4,614</b>	<b>\$1,913</b>	<b>\$ 7,031</b>

(1) A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on the company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to vendors and subcontractors pertaining to funded contracts.

(2) Other long-term liabilities primarily consist of accrued workers' compensation, deferred compensation, and other miscellaneous liabilities.

The table above excludes mandatorily redeemable preferred stock of \$350 million as well as cumulative annual cash dividends of \$7 per share, payable quarterly. See Note 14 to the Consolidated Financial Statements in Part II, Item 8.

The table above also excludes estimated minimum funding requirements for retiree benefit plans as set forth by the Employee Retirement Income Security Act (ERISA), totaling approximately \$2.9 billion over the next five years: \$389 million in 2005, \$1.3 billion in 2006 and 2007, and \$1.2 billion in 2008 and 2009. The company also has payments due under plans that are not required to be funded in advance, but are pay-as-you-go. See Note 15 to the Consolidated Financial Statements in Part II, Item 8.

Further details regarding long-term debt and operating leases can be found in Notes 13 and 16, respectively, to the Consolidated Financial Statements in Part II, Item 8.

**NORTHROP GRUMMAN CORPORATION****Sources and Uses of Cash**

The following table provides an overview of the company's sources and uses of cash. The amounts from which the percentages are derived are reported in the Consolidated Statements of Cash Flows as follows: cash from customers and cash to employees and suppliers of services and materials are reported in "Operating Activities"; cash from buyers of assets, cash to sellers of assets, and cash to suppliers of facilities are reported in "Investing Activities"; and cash from and cash to lenders and shareholders are reported in "Financing Activities."

	Year ended December 31		
	2004	2003	2002
<b>Cash came from</b>			
Customers	94%	85%	93%
Buyers of assets/other	3	13	4
Shareholders	3		
Lenders		2	3
	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Cash went to</b>			
Employees and suppliers of services and materials	88%	74%	88%
Lenders	4	16	7
Suppliers of facilities/other	2	6	1
Shareholders	4	2	1
Sellers of assets	2	2	3
	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Operating Activities**

2004 – In 2004, cash provided by operating activities was \$1.9 billion as compared with \$798 million generated in 2003. In 2003, cash used in operations included \$1 billion of taxes paid upon completion of the B-2 EMD contract. The Internal Revenue Service has completed its audits of the B-2 program for the years ended December 31, 1997 through December 31, 2000, and has proposed an adjustment that does not affect the company's income tax liability but could result in an obligation to pay an amount of interest to the Internal Revenue Service that could be significant. The company believes the proposed adjustment will be eliminated or significantly reduced. Accordingly, the company does not believe that any adjustment by the Internal Revenue Service in this matter will have a material adverse effect on the company's financial position, results of operations, or cash flows.

In 2004, the company's appeal to the Supreme Court of Indiana in connection with the Allison Gas Turbine case was denied and the company paid \$81 million in settlement of the judgment and interest.

In 2004, the company and Goodrich agreed to a settlement to resolve certain post-closing liabilities that related to warranty, customer claims, and certain other matters in exchange for a payment to Goodrich of \$99 million. The company also resolved an indemnification of other post-employment benefits, pursuant to the Auto sale agreement, and paid The Blackstone Group \$52.5 million. For further information refer to Note 5 to the Consolidated Financial Statements in Part II, Item 8.

Employer contributions to the company's pension plans increased \$295 million from \$329 million in 2003 to \$624 million in 2004. The increase reflects a voluntary pre-funding of \$250 million in the fourth quarter of 2004.

Interest payments decreased \$150 million in 2004 as compared with 2003, primarily due to a reduction in fixed-rate debt.

## **NORTHROP GRUMMAN CORPORATION**

At December 31, 2004, net working capital (current assets less current liabilities) was \$684 million reflecting a higher cash balance and a decreased current portion of long-term debt.

2003 – In 2003, cash provided by operating activities was \$798 million as compared with \$1.7 billion generated in 2002. In 2003, cash used in operations reflects \$1 billion of taxes paid upon completion of the B-2 EMD contract.

During 2003, the company also received \$178 million of federal and state tax refunds and made litigation settlement payments totaling \$206 million. At December 31, 2003, net working capital deficit (current assets less current liabilities) was \$623 million reflecting a lower cash balance, an increased current portion of long-term debt, and increased customer advances.

2002 – In 2002, cash provided by operating activities was \$1.7 billion as compared with \$817 million generated in 2001. The increased level of cash provided in 2002 principally resulted from inclusion of the Litton and Newport News acquisitions for a full year, increased operating margin over 2001, and accelerated cash collections.

### ***Investing Activities***

2004 – Cash provided by investing activities was \$9 million in 2004. On October 10, 2004, the company reached an agreement with TRW Automotive Holdings Corp. regarding the repurchase of a payment-in-kind note. On November 12, 2004, the company received \$493.5 million, which was net of \$40.5 million for settlement of certain contractual issues arising from the sale of Auto.

During 2004, the company received \$125 million from the sale of businesses. This includes the sale of Kester, one of the former Components Technologies businesses, in February 2004 for approximately \$60 million, and the sale of Northrop Grumman Canada in December 2004 for approximately \$65 million.

Capital expenditures in 2004 were \$672 million, including \$53 million for capitalized software costs. Capital expenditure commitments at December 31, 2004, were approximately \$577 million.

2003 – Cash provided by investing activities was \$2.9 billion in 2003. On February 28, 2003, the company sold TRW Auto to The Blackstone Group for \$3.3 billion in cash, a \$600 million face value payment-in-kind note, initially valued at \$455 million, and a 19.6 percent interest in the new enterprise, valued at \$170 million. The cash received from the sale of Auto was adjusted from the sale agreement amount by cash sold with the business, preliminary purchase price adjustments, and an asset retained. Cash proceeds from the sale of Auto were primarily used to reduce debt.

Capital expenditures in 2003 were \$637 million, including \$47 million for capitalized software costs.

2002 – Cash used in investing activities was \$155 million in 2002. In 2002, the company sold two businesses for \$135 million in cash, incurred \$55 million for transaction costs pertaining to the acquisition of TRW, and spent approximately \$166 million in cash to complete the Newport News acquisition. In 2002, the company acquired TRW in an all stock transaction. Capital expenditures in 2002 were \$528 million, including \$30 million for capitalized software costs.

### ***Financing Activities***

2004 – Cash of \$1 billion was used in financing activities in 2004. The company made \$725 million in principal payments of long-term debt and paid dividends to shareholders of \$321 million.

*Debt Redemption* – On October 15, 2004, the company redeemed all of its outstanding \$250 million 9.375 percent debentures due 2024. The redemption price was 104.363 percent of the principal amount plus accrued and unpaid interest through the redemption date. As a result of the redemption, the company recorded a \$13 million pre-tax charge in 2004.

## **NORTHROP GRUMMAN CORPORATION**

*Equity Security Units* – In November 2001, the company issued 6.9 million equity security units. Each equity security unit, issued at \$100 per unit, initially consisted of a contract to purchase shares of Northrop Grumman common stock on November 16, 2004, and a \$100 senior note due 2006. The senior notes due 2006 are reported as long-term debt. The senior notes initially bore interest at 5.25 percent per annum, and each equity security unit paid a contract adjustment payment of 2.0 percent per annum through November 16, 2004, for a combined yield on the equity security unit of 7.25 percent per annum through November 16, 2004.

On August 11, 2004, the company remarketed the senior notes as required by the original terms of the equity security units. As a result of this remarketing, the interest rate on the senior notes was reset to 4.079 percent per annum effective August 16, 2004. Proceeds from the remarketed notes were used to purchase U.S. Treasury securities that were pledged to secure the stock purchase obligations of the unit holders.

On November 16, 2004, the company received \$690 million and issued 13.2 million shares of common stock in settlement of the stock purchase contracts. The number of shares issued was calculated using a conversion ratio of 1.9171 shares per each equity security unit, which was determined in accordance with the original terms of the stock purchase contracts.

*Share Repurchases* – On August 20, 2003, the company's Board of Directors authorized share repurchase program of \$700 million of its outstanding common stock. This share repurchase program was completed on October 5, 2004 and resulted in the retirement of 14.4 million shares of common stock, with \$500 million of the repurchases occurring in 2004.

On October 26, 2004, the company's Board of Directors authorized a share repurchase program of up to \$1 billion of its outstanding common stock, which commenced in November 2004 and is expected to be completed over a twelve to eighteen-month period. As of December 31, 2004, the company had repurchased 5.5 million shares for approximately \$309 million, including commissions, under this share repurchase program. Share repurchases will 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.

*2003* – Cash used in financing activities was \$4.7 billion in 2003. In March 2003, the company's wholly owned subsidiary, Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), commenced offers to purchase any or all of certain designated outstanding Northrop Grumman Space & Mission Systems Corp. debt securities in a debt reduction plan substantially completed in the second quarter of 2003. In the first phase, approximately \$2.4 billion in aggregate principal amount of outstanding debt securities was tendered and accepted for purchase, for a total purchase price of approximately \$2.9 billion (including accrued and unpaid interest on the securities). In the second phase, the company purchased on the open market \$658 million in aggregate principal amount for a total purchase price of \$795 million (including accrued and unpaid interest on the securities) of Northrop Grumman Space & Mission Systems Corp. debt securities. Cash proceeds from the sale of Auto were used to complete these transactions, which contributed to the reduction of long-term debt to \$5.9 billion at December 31, 2003, from the \$9.6 billion reported at December 31, 2002.

As of December 31, 2003, as part of the share repurchase program commenced in the third quarter of 2003, the company had repurchased over 4.4 million shares for approximately \$200 million.

The company redeemed all outstanding shares of TRW Automotive Inc. Series A Convertible Preferred Stock and Series B Preferred Stock for \$117 million in 2003.

*2002* – Cash of \$623 million was used in financing activities in 2002. The use of cash in 2002 results from principal payments of long-term debt of \$500 million and dividends paid to shareholders of \$205 million.

## **NORTHROP GRUMMAN CORPORATION**

*Credit Facility* – At December 31, 2004, \$2.5 billion was available under a five-year revolving credit facility. Borrowings under the credit facility bear interest at various rates, including adjusted London Interbank Offered Rate (LIBOR), or an alternate base rate plus an incremental margin based on the company's credit rating. The credit facility also provides for a facility fee on the daily aggregate amount of commitments (whether or not utilized). The facility fee is also based on the company's credit rating level.

*Mandatorily Redeemable Series B Convertible Preferred Stock* – In connection with the Litton acquisition, the company issued 3.5 million shares of mandatorily redeemable Series B Convertible Preferred Stock in April 2001. Each share of Series B preferred stock has a liquidation value of \$100 per share. The liquidation value, plus accrued but unpaid dividends, is payable on April 4, 2021, the mandatory redemption date. The company has the option to redeem all, but not less than all, of the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company's common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company's common stock. Initially, each share is convertible into 1.82 shares of common stock, subject to adjustment. Holders of preferred stock are entitled to cumulative annual cash dividends of \$7 per share, payable quarterly. In any liquidation of the company, each share of preferred stock is entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a fundamental change in control of the company, holders of Series B preferred stock also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction.

### ***Other Sources and Uses of Capital***

*Additional Capital* – To provide for long-term liquidity, the company believes it can obtain additional capital from such sources as the public or private capital markets, the sale of assets, sale and leaseback of operating assets, and leasing rather than purchasing new assets. Cash on hand at the beginning of the year plus cash generated from operations and cash available under credit lines are expected to be sufficient in 2005 to service debt, finance capital expansion projects, pay federal income taxes, and continue paying dividends to shareholders. The company will continue to provide the productive capacity to perform its existing contracts, prepare for future contracts, and conduct research and development in the pursuit of developing opportunities. While these expenditures tend to limit short-term liquidity, they are made with the intention of improving the long-term growth and profitability of the company.

*Financial Arrangements* – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At December 31, 2004, there were \$492 million of unused stand-by letters of credit, \$150 million of bank guarantees, and \$532 million of surety bonds outstanding.

*Other Agreements* – In July and August of 2003, Ship Systems executed agreements with the states of Mississippi and Louisiana, respectively, wherein Ship Systems will lease facility improvements and equipment from these states in exchange for certain commitments by Ship Systems. Under the Mississippi agreement, Ship Systems is required to match the state's funding with expenditures in the amount of \$121 million and create 667 new full time jobs in Mississippi by December 2007. Under the Louisiana agreement, Ship Systems is required to match the state's funding with expenditures in the amount of \$56 million by December 2007, and employ a minimum of 5,200 full-time employees in 16 of the 32 fiscal quarters beginning January 1, 2003, and ending December 31, 2010. Failure by Ship Systems to meet these commitments would result in reimbursement by Ship Systems to Mississippi and Louisiana in accordance with the respective agreements.

## NORTHROP GRUMMAN CORPORATION

### OTHER MATTERS

#### New Accounting Pronouncements

Several new accounting pronouncements were issued by the Financial Accounting Standards Board (FASB), which became effective during the periods presented. None of the new pronouncements effective during 2004 had a significant effect on the company's financial position or results of operations.

Other new pronouncements issued by the FASB and not effective until after December 31, 2004, are not expected to have a significant effect on the company's financial position or results of operations, with the exception of the following:

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R) – *Share-Based Payment*, which replaces SFAS No. 123 – *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25 – *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. SFAS No. 123(R) requires liability awards to be remeasured each reporting period and compensation costs to be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The company plans to adopt the provisions of SFAS No. 123(R) prospectively during the third quarter of 2005. Management's preliminary estimate of the effect of adoption of this statement is an expense of approximately \$40 million for 2005. Management is currently evaluating the effect, if any, that adoption of this statement may have on the design of the company's performance-based stock compensation arrangements.

For further discussion of new accounting standards, see Note 2 to the Consolidated Financial Statements in Part II, Item 8.

#### Independence of Registered Public Accounting Firm

The company's independent registered public accounting firm, Deloitte & Touche LLP (Deloitte), recently advised the Audit Committee of the company's Board of Directors that a Deloitte Touche Tohmatsu member firm in Germany had disbursement authority, through December 7, 2004, over an account related to payroll tax payments and payroll tax refund deposits for a small number of company employees located in Germany. While the services to which this account related were terminated by the company in September 2002, the account remained open through December 7, 2004, with minimal account balance and activity. Upon closure, the balance in the account was remitted to the company. Deloitte informed the company and the Audit Committee that Deloitte believes its independence and objectivity with respect to performance of its audit services for the company are not, and were not, impaired by the existence of this account or the administrative actions related to it.

The Audit Committee and Deloitte discussed Deloitte's independence with respect to the company in consideration of this matter, and the Audit Committee has concluded, taking into consideration, among other factors, the insignificant amounts involved in the account, the *de minimis* fees paid to the Deloitte Touche Tohmatsu member firm in Germany for its services, and the ministerial nature of the account, that this matter did not and does not impair Deloitte's independence with respect to the audit services provided to the company.

#### Off-Balance Sheet Arrangements

As of December 31, 2004, the company had no significant off-balance sheet arrangements with the exception of operating leases as discussed in Note 16 to the Consolidated Financial Statements in Part II, Item 8.

**NORTHROP GRUMMAN CORPORATION**

**FORWARD LOOKING STATEMENTS AND IMPORTANT RISK FACTORS**

Certain statements and assumptions throughout this report contain or are based on “forward-looking” information (that Northrop Grumman believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risks and uncertainties, and include, among others, statements in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” and variations thereof and similar terms. This information reflects the company’s best estimates when made, but the company expressly disclaims any duty to update this information if new data becomes available or estimates change after the date of this report. These forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results to differ materially from estimates or projections including, without limitation:

- § The company depends on a limited number of customers. The company is heavily dependent on government contracts, many of which are only partially funded. The termination or failure to fund one or more significant contracts could have a material adverse effect on the company’s results of operations. The company is a supplier, either directly or as a subcontractor or team member, to the U.S. Government and its agencies as well as foreign governments and agencies. These contracts are subject to each customer’s political and budgetary constraints and processes, changes in short-range and long-range plans, the timing of contract awards, the congressional budget authorization and appropriation processes, the government’s ability to terminate contracts for convenience or for default, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal and regulatory requirements.
- § Many of the company’s contracts are fixed-price contracts. While firm, fixed-price contracts allow the company to benefit from cost savings, they also expose the company to the risk of cost overruns. If the company’s initial estimates used for calculating contract prices are incorrect, the company can incur losses on those contracts. In addition, some of the company’s contracts have provisions relating to cost controls and audit rights, and if the company fails to meet the terms specified in those contracts, then the company may not realize their full benefits. The company’s ability to manage costs on these contracts may have a material effect on its financial position and results of operations. In addition, in those instances where the company has entered into contracts for fixed-price development programs, the company’s successful performance of such programs is subject to its ability to control cost growth in meeting production specifications and delivery rates.
- § The company is subject to significant competition. The company’s markets include defense and commercial areas where it competes with companies of substantial size and resources. The company’s success or failure in winning new contracts or follow-on orders for its existing or future products may cause material fluctuations in the company’s future revenues and results of operations.
- § The company’s operations may be subject to events that cause adverse effects on its ability to meet contract obligations within anticipated cost and time constraints. The company may encounter internal problems and delays in delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions, or materials and components that prevent the company from achieving contract requirements. The company may be affected by delivery or performance issues with key suppliers and subcontractors, as well as other factors inherent in the company’s businesses that may cause operating results to be adversely affected. Operating results are also dependent on successful negotiation of collective bargaining agreements. Changes in inventory requirements or other production cost increases may also have a material adverse effect on the company’s results of operations.
- § If the company does not perform its plans as intended, or if the company encounters unforeseen problems, or problems subsequently develop, including loss on launch, premature failure, or unplanned degradation of performance in orbit of its satellite systems, the company’s results of operations could be adversely affected. Among the factors that may be involved would be unforeseen costs and expenses, and diversion of management focus in responding to unforeseen liabilities and in the case of certain contracts, repayment to the government



## NORTHROP GRUMMAN CORPORATION

customer of progress payments and award fees upon loss at launch or premature failure or unplanned degradation of performance in orbit of its satellite systems.

- § The company relies on continuous innovation. The company is dependent upon its ability to anticipate changing needs for defense products, military and civilian electronic systems and support, naval vessels, space technologies, and information technology. The company's success is dependent on designing new products that will respond to such requirements within customers' price limitations.
- § The company faces significant challenges in the international marketplace. The company's international business is subject to changes in import and export policies, technology transfer restrictions, limitations imposed by United States law that are not applicable to foreign competitors, and other legal, financial, and governmental risks.
- § The company assumes that any divestiture of non-core businesses and assets will be completed successfully. The company's performance may be affected by its inability to successfully dispose of assets and businesses that do not fit with, or are no longer appropriate to, the company's strategic plan.
- § The company is subject to environmental matters and other litigation, which, if not resolved within the company's expectations, could have a material adverse effect on the company's financial position, results of operations, or cash flows.
- § The company's pension (expense) income may fluctuate significantly based on changes in actuarial assumptions and future market performance, which could have a material effect on the its results of operations.
- § The company's tax filings are regularly examined by federal and state taxing authorities. Results of these examinations can result in tax deficiencies, cumulative interest payments, fines, and penalties. Such assessments could negatively affect the company's financial position, results of operations, or cash flows.
- § A decrease in expected reporting unit cash flows or changes in market conditions may indicate potential impairment of recorded goodwill.

The company intends that all forward-looking statements it makes will be subject to safe harbor protection of the federal securities laws as found in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

You should consider the limitations and risks associated in forward-looking statements and not rely on the accuracy of predictions contained in such forward-looking statements. These statements speak only as of the date when they are made. The company cannot undertake any obligation to update its 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 its senior management, may make forward-looking statements that involve the risks and other matters described in this document or other matters concerning the company.

### **Item 7A. 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 December 31, 2004, 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 to its \$2.5 billion credit agreement, which had no balance outstanding at December 31, 2004, or 2003. See Note 13 to the Consolidated Financial Statements in Part II, Item 8.

**NORTHROP GRUMMAN CORPORATION**

*Derivatives* – The company does not hold or issue derivative financial instruments for trading purposes. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At December 31, 2004, two interest rate swap agreements were in effect. At December 31, 2003, there were no interest rate swap agreements in effect. See Note 18 to the Consolidated Financial Statements in Part II, Item 8.

*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 December 31, 2004, and 2003, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure relating to foreign currency exchange to be material.

**NORTHROP GRUMMAN CORPORATION**

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS**

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

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets effective January 1, 2002, to conform to Statement of Financial Accounting Standards No. 142—*Goodwill and Other Intangible Assets*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP  
Los Angeles, California  
March 1, 2005

[Table of Contents](#)

## NORTHROP GRUMMAN CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
<i>\$ in millions</i>	2004	2003
<b>Assets:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,230	\$ 294
Accounts receivable, net	3,546	3,226
Inventoried costs, net	1,061	1,167
Deferred income taxes	777	770
Prepaid expenses and other current assets	293	281
Total current assets	6,907	5,738
<b>Property, Plant, and Equipment</b>		
Land and land improvements	533	500
Buildings	1,791	1,660
Machinery and other equipment	3,807	3,426
Leasehold improvements	268	235
	6,399	5,821
Accumulated depreciation	(2,189)	(1,774)
Property, plant, and equipment, net	4,210	4,047
<b>Other Assets</b>		
Goodwill	17,182	17,333
Other purchased intangible assets, net of accumulated amortization of \$1,205 in 2004 and \$987 in 2003	1,477	1,710
Prepaid retiree benefits cost and intangible pension asset	2,938	2,988
Deferred income taxes	28	
Other assets	619	1,206
Total other assets	22,244	23,237
<b>Total assets</b>	<b>\$33,361</b>	<b>\$33,022</b>

[Table of Contents](#)

## NORTHROP GRUMMAN CORPORATION

	December 31,	
<i>\$ in millions</i>	2004	2003
<b>Liabilities and Shareholders' Equity:</b>		
<b>Current Liabilities</b>		
Notes payable to banks	\$ 9	\$ 19
Current portion of long-term debt	33	462
Trade accounts payable	1,750	1,514
Accrued employees' compensation	1,070	1,001
Advances on contracts	1,393	1,285
Contract loss provisions	270	364
Income taxes payable	454	356
Other current liabilities	1,244	1,360
<b>Total current liabilities</b>	<b>6,223</b>	<b>6,361</b>
Long-term debt	5,116	5,410
Mandatorily redeemable preferred stock	350	350
Accrued retiree benefits	3,736	3,811
Deferred income taxes	506	508
Other long-term liabilities	730	797
<b>Total liabilities</b>	<b>16,661</b>	<b>17,237</b>
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2004—364,430,202; 2003—362,216,210	364	362
Paid-in capital	12,426	12,071
Retained earnings	4,014	3,431
Unearned compensation	(3)	(6)
Accumulated other comprehensive loss	(101)	(73)
<b>Total shareholders' equity</b>	<b>16,700</b>	<b>15,785</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$33,361</b>	<b>\$33,022</b>

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

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31		
	2004	2003	2002
<i>\$ in millions, except per share</i>			
Sales and Service Revenues			
Product sales	\$20,106	\$18,540	\$13,838
Service revenues	9,747	7,856	3,568
Total revenues	29,853	26,396	17,406
Cost of Sales and Service			
Cost of product sales	16,417	14,854	11,264
Cost of service revenues	8,718	7,681	3,262
General and administrative expenses	2,712	2,393	1,760
Operating margin	2,006	1,468	1,120
Other Income (Expense)			
Interest income	58	60	11
Interest expense	(431)	(497)	(422)
Other, net	(18)	24	26
Income from continuing operations before income taxes and cumulative effect of accounting change	1,615	1,055	735
Federal and foreign income taxes	522	297	280
Income from continuing operations before cumulative effect of accounting change	1,093	758	455
Income from discontinued operations, net of income taxes	3	64	36
(Loss) gain on disposal of discontinued operations, net of income taxes	(12)	44	5
Income before cumulative effect of accounting change	1,084	866	496
Cumulative effect of accounting change			(432)
Net income	\$ 1,084	\$ 866	\$ 64
Basic Earnings (Loss) Per Share			
Continuing operations	\$ 3.04	\$ 2.04	\$ 1.86
Discontinued operations	.01	.18	.16
Disposal of discontinued operations	(.04)	.12	.02
Before cumulative effect of accounting change	3.01	2.34	2.04
Cumulative effect of accounting change			(1.87)
Basic earnings per share	\$ 3.01	\$ 2.34	\$ .17
Weighted average common shares outstanding, in millions	359.7	365.3	231.1
Diluted Earnings (Loss) Per Share			
Continuing operations	\$ 2.99	\$ 2.03	1.83
Discontinued operations	.01	.17	.16
Disposal of discontinued operations	(.03)	.12	.02
Before cumulative effect of accounting change	2.97	2.32	2.01
Cumulative effect of accounting change			(1.84)
Diluted earnings per share	\$ 2.97	\$ 2.32	\$ .17
Weighted average diluted shares outstanding, in millions	365.0	368.4	234.9

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

[Table of Contents](#)

## NORTHROP GRUMMAN CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
Net income	<b>\$ 1,084</b>	\$ 866	\$ 64
Other Comprehensive Income (Loss)			
Change in cumulative translation adjustment	<b>11</b>	10	(1)
Unrealized gain on marketable securities, net of tax of \$15 in 2004	<b>26</b>	1	
Minimum pension liability adjustments, net of tax of \$44 in 2004, \$(681) in 2003, and \$705 in 2002	<b>(65)</b>	964	(994)
Other comprehensive (loss) income, net of tax	<b>(28)</b>	975	(995)
Comprehensive income (loss)	<b>\$ 1,056</b>	\$ 1,841	\$ (931)

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

## NORTHROP GRUMMAN CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31

<i>\$ in millions</i>	2004	2003	2002
<b>Operating Activities</b>			
Sources of cash—continuing operations			
Cash received from customers			
Progress payments	\$ 7,583	\$ 8,575	\$ 5,748
Other collections	22,110	17,932	11,869
Proceeds from litigation settlement			220
Income tax refunds received	121	178	74
Interest received	8	17	69
Other cash receipts	34	64	34
Total sources of cash—continuing operations	29,856	26,766	18,014
Uses of cash—continuing operations			
Cash paid to suppliers and employees	26,751	24,011	15,860
Interest paid	443	593	334
Income taxes paid	449	1,152	149
Payments for litigation settlements	86	206	
Other cash payments	181	35	17
Total uses of cash—continuing operations	27,910	25,997	16,360
Cash provided by continuing operations	1,946	769	1,654
Cash (used in) provided by discontinued operations	(10)	29	35
Net cash provided by operating activities	1,936	798	1,689
<b>Investing Activities</b>			
Proceeds from sale of businesses, net of cash divested	125	3,614	135
Collection of note receivable	494		
Payments for businesses purchased, net of cash acquired		(66)	144
Additions to property, plant, and equipment	(672)	(637)	(528)
Proceeds from sale of property, plant, and equipment	28	86	45
Proceeds from sale of investment	23		29
Other investing activities, net	11	(56)	30
Discontinued operations		(71)	(10)
Net cash provided by (used in) investing activities	9	2,870	(155)
<b>Financing Activities</b>			
Borrowings under lines of credit	101	758	514
Repayment of borrowings under lines of credit	(111)	(772)	(501)
Principal payments of long-term debt	(725)	(3,805)	(500)
Dividends paid	(322)	(305)	(205)
Common stock repurchases	(786)	(200)	
Proceeds from issuance of stock	834	33	76
Redemption of minority interest		(117)	
Discontinued operations		(341)	(7)
Net cash used in financing activities	(1,009)	(4,749)	(623)
Increase (decrease) in cash and cash equivalents	936	(1,081)	911
Cash and cash equivalents, beginning of year	294	1,375	464
Cash and cash equivalents, end of year	\$ 1,230	\$ 294	\$ 1,375



**NORTHROP GRUMMAN CORPORATION**

Year ended December 31

<i>\$ in millions</i>	2004	2003	2002
<b>Reconciliation of Income from Continuing Operations to Net Cash Provided by Operating Activities</b>			
Income from continuing operations before cumulative effect of accounting change	\$ 1,093	\$ 758	\$ 455
Adjustments to reconcile to net cash provided by operating activities			
Depreciation	508	455	347
Amortization of intangible assets	226	227	170
Stock based compensation	154	84	67
Loss on disposals of property, plant, and equipment	14	20	
Amortization of long-term debt premium	(17)	(47)	(2)
Decrease (increase) in			
Accounts receivable	(5,674)	(5,385)	(771)
Inventoried costs	3	(53)	(211)
Prepaid expenses and other current assets	3	5	38
Increase (decrease) in			
Progress payments	5,400	5,264	1,109
Accounts payable and accruals	322	(276)	78
Contract loss provisions	(94)	(24)	(135)
Deferred income taxes	91	1,022	(1,509)
Income taxes payable	98	(960)	1,049
Retiree benefits	(192)	(374)	941
Other non-cash transactions	11	53	28
Cash provided by continuing operations	1,946	769	1,654
Cash (used in) provided by discontinued operations	(10)	29	35
Net cash provided by operating activities	\$ 1,936	\$ 798	\$ 1,689
<b>Noncash Investing and Financing Activities:</b>			
Conversion of debt to equity			\$ 3
Settlement of note receivable in lieu of payment	\$ 40		
Sale of business			
Note receivable, net of discount		\$ 455	
Investment in unconsolidated affiliate		170	
Purchase of businesses			
Fair value of assets acquired		\$ 73	\$20,243
Cash paid, net of cash acquired		(66)	144
Noncash stock compensation			(151)
Common stock issued			(7,753)
Liabilities assumed		\$ 7	\$12,483

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

[Table of Contents](#)
**NORTHROP GRUMMAN CORPORATION**
**CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY**

<i>\$ in millions, except per share</i>	Year ended December 31		
	2004	2003	2002
<b>Common Stock</b>			
At beginning of year	\$ 362	\$ 365	\$ 217
Stock issued in purchase of businesses			145
Stock issued upon execution of stock purchase contracts	13		
Common stock repurchased	(15)	(4)	
Employee stock awards and options	4	1	3
At end of year	364	362	365
<b>Paid-in Capital</b>			
At beginning of year	12,071	12,146	4,234
Stock issued in purchase of businesses			7,608
Stock issued upon execution of stock purchase contracts	677		
Common stock repurchased	(794)	(196)	
Stock split	179		
Employee stock awards and options	293	121	304
At end of year	12,426	12,071	12,146
<b>Retained Earnings</b>			
At beginning of year	3,431	2,870	3,011
Net income	1,084	866	64
Stock split	(179)		
Cash dividends	(322)	(305)	(205)
At end of year	4,014	3,431	2,870
<b>Unearned Compensation</b>			
At beginning of year	(6)	(11)	(18)
Amortization of unearned compensation	3	5	7
At end of year	(3)	(6)	(11)
<b>Accumulated Other Comprehensive Loss</b>			
At beginning of year	(73)	(1,048)	(53)
Change in cumulative translation adjustment	11	10	(1)
Change in unrealized gain on marketable securities, net of tax	26	1	
Change in additional minimum pension liability, net of tax	(65)	964	(994)
At end of year	(101)	(73)	(1,048)
Total shareholders' equity	\$16,700	\$15,785	\$14,322
Cash dividends per share	\$ .89	\$ .80	\$ .80

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

**NORTHROP GRUMMAN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*Nature of Operations* – Northrop Grumman provides technologically advanced, innovative products, services and solutions in defense and commercial electronics, nuclear and non-nuclear shipbuilding, information technology, mission systems, systems integration, and space technology. As prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and commercial technology programs in the United States and abroad. The majority of the company’s products and services are ultimately sold to the U. S. Government, and the company is therefore affected by, among other things, the federal budget process.

*Revenue Recognition* – As a defense contractor engaging in long-term contracts, the company extensively utilizes the cost-to-cost and the units-of-delivery measures of the percentage-of-completion method of accounting. Sales under cost-reimbursement contracts and construction-type contracts that provide for delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred are accounted for using the cost-to-cost measure of the percentage-of-completion method of accounting. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. For most contracts, sales are calculated based on the percentage that total costs incurred bear to total estimated costs. For certain contracts with large up-front purchases of material, sales are calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs. Sales under construction-type contracts that provide for delivery at a high volume per year are accounted for using the units-of-delivery measure of the percentage-of-completion method of accounting. Under this method, sales are recognized as deliveries are made and are computed on the basis of the estimated final average unit cost plus profit. Revenue relating to service contracts is recognized as the services are performed.

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined. Amounts representing contract change orders, claims, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in assets, with any remaining amount reflected in liabilities. Other changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates. A significant change in an estimate on one or more programs could have a material effect on the company’s financial position or results of operations.

## **NORTHROP GRUMMAN CORPORATION**

*Research and Development* – Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative costs and are allocated to U.S. Government contracts. Company-sponsored research and development expenses totaled \$504 million, \$429 million, and \$283 million in 2004, 2003, and 2002, respectively. Customer-sponsored research and development expenses are charged directly to the related contracts.

*Product Warranty Costs* – The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time. Most of the company's product warranties are provided under government contracts, the costs of which are generally recoverable from the customer. Accrued product warranty costs of \$99 million and \$90 million were included in other current liabilities at December 31, 2004, and 2003, respectively.

*Environmental Costs* – Environmental liabilities are accrued when the company determines it is responsible for remediation costs and such amounts are reasonably estimable. When only a range of amounts is established and no amount within the range is more probable than another, the minimum amount in the range is recorded. Environmental liabilities are recorded on an undiscounted basis. At sites involving multiple parties, the company accrues environmental liabilities based upon its expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. The company does not anticipate and record insurance recoveries before collection is probable. At December 31, 2004, and 2003, the company did not accrue any assets related to insurance reimbursements or recoveries.

*Foreign Currency Forward Contracts* – The company enters into foreign currency forward contracts to manage foreign currency exchange risk related to receipts from customers and payments to suppliers denominated in foreign currencies. Gains and losses from such transactions are included as contract costs. At December 31, 2004 and 2003, the amount of foreign currency forward contracts outstanding was not material.

*Interest Rate Swap Agreements* – The company may enter into interest rate swap agreements to offset the variable-rate characteristic of certain variable-rate term loans which may be outstanding from time to time under the company's credit facility (see Note 13). The company may also enter into interest rate swap agreements to benefit from floating interest rates as an offset to the fixed-rate characteristic of certain of its long-term debt. Two interest rate swap agreements were entered into during 2004 and are in effect as of December 31, 2004 (see Note 18). No interest rate swap agreements were in effect at December 31, 2003.

*Income Taxes* – Provisions for federal, foreign, state, and local income taxes are calculated on reported financial statement pre-tax income based on current tax law and also include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. State and local income and franchise tax provisions are included in administrative and general expenses.

*Cash and Cash Equivalents* – Cash and cash equivalents include interest-earning debt instruments that mature in three months or less from the date purchased.

*Marketable Securities* – The company accounts for marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115 – *Accounting for Certain Investments in Debt and Equity Securities*, which requires the determination of the appropriate classification for all marketable securities as either held-to-maturity, available-for-sale, or trading at the time of purchase. The company evaluates the appropriate classification of its marketable securities at each balance sheet date. At December 31, 2004, and 2003, all of the company's

**NORTHROP GRUMMAN CORPORATION**

investments in marketable securities were classified as available-for-sale or trading. For available-for-sale securities, any unrealized gains and losses are reported as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in income in the period in which they occur. The fair values of these marketable securities are determined based on prevailing market prices.

*Accounts Receivable* – Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled (primarily related to contracts accounted for under the cost-to-cost measure of the percentage-of-completion method of accounting), certain estimated contract changes, claims in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

*Inventoried Costs* – Inventoried costs primarily relate to work in process under fixed-price contracts (excluding those included in unbilled accounts receivable as previously described). They represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. The ratio of inventoried general and administrative expenses to total inventoried costs is estimated to be the same as the ratio of total administrative and general expenses incurred to total contract costs incurred. According to the provisions of U. S. Government contracts, the customer asserts title to, or a security interest in, substantially all inventories related to such contracts as a result of advances, performance-based payments, and progress payments. General corporate expenses and IR&D allocable to commercial contracts are expensed as incurred. Inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Product inventory primarily consists of raw materials and is stated at the lower of cost or market, generally using the average cost method.

*Depreciable Properties* – Property, plant, and equipment owned by the company are depreciated over the estimated useful lives of individual assets. Costs incurred for computer software developed or obtained for internal use are capitalized and classified in machinery and other equipment. Capitalized software costs are amortized over no more than three years. Most of these assets are depreciated using declining-balance methods, with the remainder using the straight-line method, with the following lives:

	Years
Land improvements	2-40
Buildings	2-45
Machinery and other equipment	2-25
Leasehold improvements	Length of lease

*Goodwill and Other Purchased Intangible Assets* – The company applies SFAS No. 142 – *Goodwill and Other Intangible Assets* in accounting for goodwill and purchased intangible assets. In accordance with SFAS No. 142, impairment tests are performed at least annually for goodwill, and more often as circumstances require. When it is determined that an impairment has occurred, an appropriate charge to operations is recorded. Goodwill and other purchased intangible assets balances are included in the identifiable assets of the business segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective business segment operating margin. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives.

*Self-Insurance Accruals* – Included in other long-term liabilities is approximately \$410 million and \$398 million related to self-insured workers' compensation as of December 31, 2004, and 2003, respectively. The company estimates the required liability of such claims on a discounted basis utilizing actuarial methods based on various assumptions, which include, but are not limited to, the company's historical loss experience and projected loss development factors.

**NORTHROP GRUMMAN CORPORATION**

*Retirement Benefits* – The company sponsors various pension plans covering substantially all employees. The company also provides postretirement benefit plans other than pensions, consisting principally of health care and life insurance benefits, to eligible retirees and qualifying dependents. The liabilities and annual income or expense of the company’s pension and other postretirement benefit plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return (based on the market related value of assets), and medical trend (rate of growth for medical costs). Not all net periodic pension income or expense is recognized in net earnings in the year incurred because it is allocated to production as product costs, and a portion remains in inventory at the end of a reporting period. The company’s funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust.

*Litigation and Contingencies* – In accordance with SFAS No. 5 – *Accounting for Contingencies*, amounts associated with litigation and contingencies are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

*Foreign Currency Translation* – For operations outside the U. S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are generally translated at end-of-period exchange rates. Translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in shareholders’ equity.

*Stock Based Compensation* – The company utilizes the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 – *Accounting for Stock Issued to Employees* and related interpretations in accounting for awards made under stock compensation plans. When stock options are exercised, the cash proceeds received by the company are recorded as an increase to paid-in capital. No compensation expense is recognized in connection with the stock options. Compensation expense for restricted performance stock rights and restricted stock rights is estimated and accrued over the vesting period.

Had compensation expense been determined based on the fair value at the grant dates for stock option awards, consistent with the method of SFAS No. 123 – *Accounting for Stock Based Compensation*, net income, basic earnings per share, and diluted earnings per share would have been as shown in the table below. These amounts were determined using weighted-average per share fair values for market options granted in 2004, 2003, and 2002 of \$18, \$16, and \$19, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on an expected life of six years and for 2004, 2003, and 2002, respectively, the following additional assumptions – dividend yield: 1.5 percent, 1.7 percent, and 1.4 percent; expected volatility: 34 percent, 35 percent, and 35 percent; and risk-free interest rate: 4.1 percent, 3.6 percent, and 3.5 percent.

	Year ended December 31		
	2004	2003	2002
<i>\$ in millions, except per share</i>			
<b>Net Income as Reported</b>	<b>\$ 1,084</b>	\$ 866	\$ 64
Stock based compensation, net of tax, included in net income as reported	115	64	45
Stock based compensation, net of tax, that would have been included in net income, if the fair value method had been applied to all awards	(140)	(82)	(65)
<b>Pro-Forma Net Income Using the Fair Value Method</b>	<b>\$ 1,059</b>	\$ 848	\$ 44
<b>Basic Earnings Per Share</b>			
As reported	\$ 3.01	\$ 2.34	\$ .17
Pro-forma	\$ 2.94	\$ 2.29	\$ .08
<b>Diluted Earnings Per Share</b>			
As reported	\$ 2.97	\$ 2.32	\$ .17
Pro-forma	\$ 2.90	\$ 2.27	\$ .08

## NORTHROP GRUMMAN CORPORATION

*Financial Statement Reclassification* – Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the 2004 presentation. Effective January 1, 2004, the company realigned businesses among its Mission Systems, Information Technology, and Integrated Systems segments. Where applicable, all prior period segment information has been reclassified to reflect this realignment. During the third quarter of 2004, the company suspended its efforts to sell the remaining Component Technologies (CT) businesses. Accordingly, the assets, liabilities, and results of operations of the remaining businesses have been reclassified from discontinued operations to continuing operations for all periods presented (see Note 5). These businesses are reported under the segment entitled “Other.”

### 2. NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R) – *Share-Based Payment*, which replaces SFAS No. 123 – *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25 – *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. SFAS No. 123(R) requires liability awards to be remeasured each reporting period and compensation costs to be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The company plans to adopt the provisions of SFAS No. 123(R) prospectively during the third quarter of 2005, and is currently evaluating the effect that adoption of this statement will have on its financial position and results of operations.

In December 2004, FASB issued SFAS No. 153 – *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*, to replace the exception from fair value measurement for nonmonetary exchanges of similar productive assets in APB Opinion No. 29 – *Accounting for Nonmonetary Transactions*. SFAS No. 153 replaces this exception with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. Management is currently evaluating the effect that adoption of this statement will have on the company’s financial position and results of operations.

In December 2004, FASB issued SFAS No. 151 – *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal.” In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management is currently evaluating the effect that adoption of this statement will have on the company’s financial position and results of operations.

In November 2004, the Emerging Issues Task Force (EITF) reached consensus on EITF Issue No. 03-13 – *Applying the Conditions of Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*. Issue No. 03-13 provides that classification of a disposed component as a discontinued operation is appropriate only if the ongoing entity has no continuing direct cash flows, and does not retain an interest, contract, or other arrangement sufficient to enable it to exert significant influence over the disposed component’s operating and financial policies after the disposal transaction. This issue is effective to components that are disposed of or classified as held for sale in periods beginning after December 15, 2004. Adoption of EITF 03-13 did not have a significant effect on the company’s financial position or results of operations.

## **NORTHROP GRUMMAN CORPORATION**

In December 2004, the FASB issued FASB Staff Position (FSP) FAS 109-1 – *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* (2004 Act). This FSP provides guidance on the application of SFAS No. 109 to the provisions of the tax deduction on qualified production activities contained within the 2004 Act. FSP 109-1 states that the manufacturers' deduction should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax rate reduction. The company adopted the provisions of FSP 109-1 during the fourth quarter of 2004. Adoption of FSP 109-1 did not have a significant effect on the company's financial position or results of operations.

In December 2004, the FASB issued FSP FAS 109-2 – *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, which provides guidance for the repatriation provisions included in the 2004 Act. The 2004 Act introduced a special limited-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer. As a result, FSP 109-2 provides an exception to the SFAS No. 109 requirement to reflect the effect of a new tax law in the period of enactment. Accordingly, an entity is allowed additional time beyond the financial reporting period of enactment to evaluate the effect of the 2004 Act on its plan for repatriation of foreign earnings. The company adopted the provisions of FSP 109-2 during the fourth quarter of 2004. Adoption of FSP 109-2 did not have a significant effect on the company's financial position or results of operations.

On May 19, 2004, the FASB issued FSP FAS 106-2 – *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which supersedes FSP 106-1. This FSP provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits. It also requires certain disclosures regarding the effect of the federal subsidy provided by the Act. The company adopted the provisions of FSP 106-2 during the third quarter of 2004 (see Notes 15 and 19).

### **3. STOCK SPLIT AND COMMON STOCK DIVIDEND**

*Stock Split* – On May 11, 2004, the company's Board of Directors approved a two-for-one stock split of the company's common stock. The stock split was payable in the form of a stock dividend and entitled each shareholder of record at the close of business on May 28, 2004, to receive one share of common stock for every outstanding share of common stock held on that date. The stock dividend was distributed on June 21, 2004. As required by Delaware statute, the company transferred the par value of \$1 per share from retained earnings to paid-in capital for each share outstanding on May 28, 2004. The capital accounts, share data, and earnings per share data in these Consolidated Financial Statements give effect to the stock split, applied retroactively, to all periods presented.

*Common Stock Dividend* – On May 11, 2004, the company's Board of Directors approved a 15 percent increase to the company's quarterly common stock dividend. On a post-split basis, the quarterly cash dividend was increased from \$.20 per share to \$.23 per share.

### **4. BUSINESSES ACQUIRED**

In December 2002, the company purchased 100 percent of the common stock of TRW, Inc. (TRW) valued at approximately \$12.5 billion, including the assumption of TRW's debt of \$4.8 billion. The purchase of TRW consisted of two defense related businesses and an automotive business (Auto). The company issued approximately 139 million shares of its common stock with cash paid in lieu of any fractional share of the company's stock, which otherwise would be issued to the TRW shareholders. The acquisition of TRW was accounted for using the purchase method of accounting. Under the purchase method of accounting, the purchase price is allocated to the



## NORTHROP GRUMMAN CORPORATION

underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with the excess recorded as goodwill. As of December 31, 2003, the company completed the fair market value and accounting conformance evaluation process for TRW and recorded an aggregate increase to goodwill of \$1.6 billion.

### 5. BUSINESSES SOLD AND DISCONTINUED OPERATIONS

The company's Consolidated Financial Statements and related footnote disclosures reflect Auto and the sold CT businesses as discontinued operations, net of applicable income taxes, for all periods presented in accordance with SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Accordingly, "Income from discontinued operations, net of tax" in the accompanying Consolidated Statements of Income includes the January and February 2003 results of Auto, the sale of which was completed on February 28, 2003, and the results of the company's divested CT businesses.

*Component Technologies* – The businesses comprising the CT reporting segment were classified as discontinued operations beginning in the third quarter of 2002, and subsequently the company sold all but three of the CT businesses. The remaining businesses consist of a manufacturer of complex printed circuit boards, an electronic connector manufacturer, and a European-based marketing group. During the third quarter of 2004, the company suspended its efforts to sell these businesses. Accordingly, the assets, liabilities, and results of operations of these businesses have been reclassified from discontinued operations to continuing operations for all periods presented. These businesses are reported under the segment entitled "Other." As a result of the reclassification, net sales for the years ended December 31, 2003, and 2002 increased by \$191 million and \$200 million respectively. Income from continuing operations for the years ended December 31, 2003, and 2002 were reduced by \$50 million, and \$242 million, respectively, and previously reported diluted earnings per share from continuing operations for the same periods were reduced to \$2.03 and \$1.83 from \$2.16 and \$2.86, respectively.

*TRW Auto Sale* – Proceeds received from the sale of Auto to The Blackstone Group included \$3.3 billion in cash, a \$600 million face value payment-in-kind note, initially valued at \$455 million, debt assumption of approximately \$200 million, and a 19.6 percent investment in the new enterprise, initially valued at \$170 million. As a result of Auto's initial public offering in February 2004, the company's ownership percentage in Auto has been reduced to 17.2 percent. The cash received from the sale of Auto was adjusted from the sale agreement amount by cash sold with the business, preliminary purchase price adjustments, and an asset retained.

*Auto Settlement Agreement* – On October 10, 2004, the company reached an agreement with TRW Automotive Holdings Corp. to sell the payment-in-kind note, which bore interest at an effective yield of 11.7 percent per annum and was to mature in 2018, and to settle certain other contractual issues arising from the Auto sale. At the date of the agreement, the note, including accrued interest, was valued at \$543 million. The company also resolved an indemnification of other post-retirement employee benefits pursuant to the Auto sale agreement, and agreed to pay The Blackstone Group \$52.5 million. As a result of the agreement, the company recorded a \$9 million after-tax charge to continuing operations relating to the sale of the note, and a \$6 million after-tax charge to discontinued operations related to the settlement of the indemnification and other contractual issues. In November 2004, the company received \$493.5 million for the sale of the note, which was net of \$40.5 million for settlement of the contractual issues, and paid \$52.5 million for settlement of the indemnification.

*Auto Investment* – In January 2004, restrictions on the equity investment in Auto were amended to provide the company more flexibility in the disposition of its shares. Under the amended agreement, approximately 4 million shares become available for sale through December 31, 2005. Accordingly, these shares have been reported as available-for-sale securities totaling \$83 million as of December 31, 2004. The amount recorded reflects the corresponding publicly traded stock price of Auto and is included in "Prepaid expenses and other current assets" in

**NORTHROP GRUMMAN CORPORATION**

the accompanying Consolidated Statements of Financial Position. The remaining equity investment of \$130 million and \$170 million as of December 31, 2004, and December 31, 2003, respectively, is carried at cost and is included in "Other assets" in the accompanying Consolidated Statements of Financial Position.

*Goodrich* – The company assumed through its acquisition of TRW certain post-closing liabilities retained by TRW in connection with TRW's October 2002 sale of its Aeronautical Systems business to Goodrich Corporation (Goodrich). On December 27, 2004, the company and Goodrich agreed to a settlement to resolve certain post-closing liabilities that related to warranty, customer claims, and certain other matters in exchange for a payment to Goodrich of \$99 million. This settlement resulted in a 2004 after-tax charge to discontinued operations of \$15 million. The settlement excludes amounts associated with claims that Goodrich may assert against the company relating to the Airbus A380 actuation systems development program and certain other liabilities retained by TRW under the original acquisition agreement.

*Northrop Grumman Canada* – On December 30, 2004, the company completed the sale of its Canadian navigation systems and space sensors systems businesses for \$65 million in cash, and recorded a \$9 million after-tax gain in discontinued operations. The assets and liabilities as well as results of operations of the Canadian navigation systems and space sensors systems businesses were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

Sales and operating results of the discontinued businesses were as follows:

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
Sales	\$ 15	\$ 2,290	\$ 431
Income from discontinued operations	\$ 3	\$ 104	\$ 55
Income tax expense		(40)	(19)
Income from discontinued operations, net of tax	\$ 3	\$ 64	\$ 36
(Loss) gain on disposal of discontinued operations	\$ (12)	\$ 97	\$ 29
Income tax expense		(53)	(24)
(Loss) gain on disposal of discontinued operations, net of tax	\$ (12)	\$ 44	\$ 5

Tax rates on discontinued operations vary from the company's effective tax rate due to the non-deductibility of goodwill for tax purposes.

At December 31, 2003, the major classes of assets for these discontinued businesses included current assets of \$32 million, net property, plant, and equipment of \$23 million, and other assets of \$11 million, and the major classes of liabilities were accounts payable and other current liabilities of \$41 million and other long-term liabilities of \$4 million.

**6. SEGMENT INFORMATION****Organization, Products, and Services**

The company operates in seven business segments organized based on differences in their respective products and services: Electronic Systems, Newport News, Ship Systems, Information Technology, Mission Systems, Integrated Systems, and Space Technology. For financial reporting purposes, the Electronic Systems, Information Technology, Mission Systems, Integrated Systems, and Space Technology sectors are each reportable segments. In accordance with the provisions of SFAS No. 131 – *Disclosures about Segments of an Enterprise and Related Information*, Newport News and Ship Systems results are aggregated and reported as the Ships segment.

## **NORTHROP GRUMMAN CORPORATION**

*Electronic Systems* – Electronic Systems is a leading designer, developer, and manufacturer of a wide variety of advanced defense electronics and systems. Electronic Systems provides airborne radar systems, secondary surveillance systems, inertial navigation systems and sensors, electronic warfare systems, precision weapons, air traffic control systems, air defense systems, communications systems, space systems, marine systems, oceanic and naval systems, integrated avionics systems, and automation and information systems. Key products include fire control radars for the F-16, F/A-22, and F-35 fighter aircraft, as well as for the Longbow Apache helicopter. Other principal products include the Airborne Warning and Control System (AWACS) radar, the 737 airborne early warning and control system, the Joint Surveillance Target Attack Radar System (Joint STARS) air-to-ground surveillance radar sensor, the Longbow Hellfire missile, tactical military radars, countrywide air defense systems, airborne electronic countermeasures systems, sophisticated undersea warfare systems, and naval propulsion and power generation systems.

*Newport News* – Newport News’ primary business is the design, construction, repair, maintenance, overhaul, life-cycle support, and refueling of nuclear-powered aircraft carriers and the design, life-cycle support, and construction of nuclear-powered submarines for the U.S. Navy. Newport News is the nation’s sole designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines. Major programs are the CVN 21 (next generation aircraft carrier), the Nimitz-class nuclear powered aircraft carriers, and the Virginia-class submarine program. The sector also provides after-market services for a wide array of naval and commercial vessels.

*Ship Systems* – Ship Systems is one of the nation’s leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels of all types. Major programs for the U.S. Navy include the WASP LHD 1 Class and San Antonio LPD 17 Class amphibious assault ships, the Arleigh Burke DDG 51, and next generation DD(X) destroyers. Ship Systems is also a partner in the Coast Guard’s Deepwater modernization program. Major programs for the U.S. Coast Guard include the Maritime Security Cutter – Large (WMSL), the Maritime Security Cutter – Medium (WMSM) and the Maritime Coastal Patrol Cutter (WPC). Ship Systems also produces double-hulled crude oil tankers.

*Information Technology* – Information Technology is a premier provider of advanced information technology (IT) solutions, engineering, and business services for government and commercial customers. The segment consists of four lines of business: Government Information Technology, Enterprise Information Technology, Commercial Information Technology, and Technology Services. Government Information Technology covers a wide range of large-scale systems integration, solutions, and services programs. This work is performed for government customers at the DoD, federal, state, and local levels, and covers C4ISR, training and simulation, science and technology, and information systems markets. Enterprise Information Technology focuses on the delivery and integration of commercially available computers, networks, hardware, software, and peripherals to government and commercial customers. Commercial Information Technology provides complete IT outsourcing services directed at the commercial marketplace and also provides public safety and information services to state and local governments. Technology Services includes base and range support, training and simulation, and information systems. In addition, the segment provides IT services internally to all Northrop Grumman sectors.

*Mission Systems* – Mission Systems is a leading global system integrator of complex, mission-enabling systems for government, military, and business clients. The organization’s technology leadership spans three business areas: Command, Control & Intelligence Systems, Missile Systems, and Technical and Management Services. Products and services are focused on the fields of Command, Control, Communications, Computers and Intelligence (C4I), strategic missiles, missile and air defense, airborne reconnaissance, intelligence management and processing, electro-magnetic and infrared analysis, communications, and decision support systems.

## **NORTHROP GRUMMAN CORPORATION**

*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. Integrated Systems includes the Air Combat Systems, Airborne Early Warning and Electronic Warfare Systems, and Airborne Ground Surveillance and Battle Management Systems business areas. Integrated Systems is the prime contractor for the Joint STARS advanced airborne targeting and battle management system, Global Hawk, and B-2 Spirit stealth bomber. The segment has principal roles in the F/A-18 Hornet strike fighter and F-35 joint strike fighter programs. Integrated Systems is upgrading the EA-6B Prowler electronic countermeasures aircraft and produces the E-2C Hawkeye early warning aircraft.

*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 play an important role in 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 spacecraft systems and subsystems, electronic and communications payloads, advanced avionics systems, and high energy laser systems and subsystems.

*Other* – The segment entitled "Other" includes the assets, liabilities, and results of operations of the three remaining CT businesses. These businesses consist of a manufacturer of complex printed circuit boards, an electronic connector manufacturer, and a European-based marketing group. Effective January 1, 2005, two of these operations were integrated into, and reported under, the Electronic Systems segment. The European-based marketing group will continue to be reported under "Other." The effect of this realignment on the Electronic Systems segment's sales and operating margin is not significant.

### **Summary Segment Financial Information**

In the following table of segment and major customer data, revenue from the U.S. Government includes revenue from contracts for which Northrop Grumman is the prime contractor as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. The company's discontinued operations are excluded from all of the data elements in this table, except for assets by segment. The 2002 consolidated statement of income does not include TRW's post-acquisition results as they were not material.

*Adjustments to Reconcile to Total Operating Margin* – Pension expense is included in the segments' cost of sales to the extent that these costs are currently recognized under government Cost Accounting Standards (CAS). In order to reconcile from segment operating margin to total company operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above." Total pension income or expense accounted for under accounting principles generally accepted in the United States of America is reported separately as a reconciling item under the caption "Pension (expense) income." The reconciling item captioned "Unallocated expenses" includes the portion of corporate, legal, environmental, state income tax, other retiree benefits expenses, and other expenses not considered allowable under CAS and not allocated to the segments.

*Foreign Sales* – Foreign sales amounted to approximately \$1.6 billion, \$1.8 billion, and \$1.4 billion during 2004, 2003, and 2002, respectively.

**NORTHROP GRUMMAN CORPORATION**
**Results of Operations By Segment and Major Customer**

	Year ended December 31		
	2004	2003	2002
<i>\$ in millions</i>			
<b>Sales and Service Revenues</b>			
<b>Electronic Systems</b>			
United States Government	\$ 3,761	\$ 3,481	\$ 2,959
Other customers	2,190	2,199	2,114
Intersegment sales	466	359	253
	<b>6,417</b>	<b>6,039</b>	<b>5,326</b>
<b>Ships</b>			
United States Government	6,108	5,276	4,445
Other customers	142	174	251
Intersegment sales	2	1	1
	<b>6,252</b>	<b>5,451</b>	<b>4,697</b>
<b>Information Technology</b>			
United States Government	4,102	3,824	2,971
Other customers	778	741	464
Intersegment sales	171	86	41
	<b>5,051</b>	<b>4,651</b>	<b>3,476</b>
<b>Mission Systems</b>			
United States Government	4,359	3,785	736
Other customers	283	132	9
Intersegment sales	305	255	19
	<b>4,947</b>	<b>4,172</b>	<b>764</b>
<b>Integrated Systems</b>			
United States Government	4,486	3,638	3,096
Other customers	204	181	161
Intersegment sales	52	28	16
	<b>4,742</b>	<b>3,847</b>	<b>3,273</b>
<b>Space Technology</b>			
United States Government	3,148	2,718	
Other customers	63	57	
Intersegment sales	58	48	
	<b>3,269</b>	<b>2,823</b>	
<b>Other</b>			
United States Government	2		
Other customers	227	190	200
Intersegment sales	1	1	
	<b>230</b>	<b>191</b>	<b>200</b>
Intersegment eliminations	(1,055)	(778)	(330)
<b>Total revenue</b>	<b>\$ 29,853</b>	<b>\$ 26,396</b>	<b>\$ 17,406</b>
<b>Operating Margin</b>			
Electronic Systems	\$ 670	\$ 590	\$ 434
Ships	389	295	306
Information Technology	301	269	191
Mission Systems	321	266	59
Integrated Systems	412	384	331
Space Technology	222	193	
Other	(3)	(74)	(271)
<b>Total segment operating margin</b>	<b>2,312</b>	<b>1,923</b>	<b>1,050</b>
Adjustments to Reconcile to Total Operating Margin			
Unallocated expenses	(282)	(137)	(105)
Pension (expense) income	(350)	(568)	90
Reversal of CAS pension expense included above	338	265	100
Reversal of royalty income included above	(12)	(15)	(15)
<b>Total operating margin</b>	<b>\$ 2,006</b>	<b>\$ 1,468</b>	<b>\$ 1,120</b>

[Table of Contents](#)

## NORTHROP GRUMMAN CORPORATION

<i>\$ in millions</i>	December 31,	
	2004	2003
<b>Assets</b>		
Electronic Systems	\$ 5,761	\$ 5,660
Ships	6,521	6,482
Information Technology	3,467	3,386
Mission Systems	5,121	5,188
Integrated Systems	2,201	2,210
Space Technology	4,625	4,717
Other	82	173
Segment assets	27,778	27,816
General corporate	5,583	5,206
Total assets	\$ 33,361	\$ 33,022

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Capital Expenditures</b>			
Electronic Systems	\$ 146	\$ 173	\$ 263
Ships	220	136	76
Information Technology	29	30	45
Mission Systems	25	28	
Integrated Systems	111	158	134
Space Technology	123	105	
Other	3	2	7
General corporate	15	5	3
Total capital expenditures	\$ 672	\$ 637	\$ 528

<b>Depreciation and Amortization</b>			
Electronic Systems	\$ 245	\$ 229	\$ 226
Ships	148	142	147
Information Technology	51	47	44
Mission Systems	56	60	
Integrated Systems	94	86	78
Space Technology	132	115	
Other	2		21
General corporate	6	3	1
Total depreciation and amortization	\$ 734	\$ 682	\$ 517

**NORTHROP GRUMMAN CORPORATION**

**7. EARNINGS PER SHARE**

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

*Diluted Earnings Per Share* – Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans and the dilutive effect of the equity security units, as applicable. Shares issuable pursuant to the 3.5 million mandatorily redeemable preferred stock are not included in the diluted earnings per share calculations because their effect is anti-dilutive for all periods presented. The weighted-average diluted shares outstanding for the years ended 2004, 2003, and 2002, exclude stock options to purchase approximately 12.6 million shares, 11.2 million shares, and 4.3 million 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.

*Effects of SFAS No. 150* – Through June 30, 2003, income available to common shareholders from continuing operations was calculated by reducing income from continuing operations by the amount of dividends accrued on mandatorily redeemable preferred stock. Effective July 1, 2003, the company adopted SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Following adoption of this standard, mandatorily redeemable preferred stock is reported as a long-term liability in the accompanying Consolidated Statements of Financial Position, and dividends accrued on mandatorily redeemable preferred stock have been recorded as interest expense in the accompanying Consolidated Statements of Income. This change had no effect on the earnings per share calculation. This standard required adoption on a prospective basis, and accordingly, no restatement of prior periods has been made.

*Share Repurchases* – On August 20, 2003, the company's Board of Directors authorized a share repurchase program of \$700 million of its outstanding common stock. This share repurchase program was completed on October 5, 2004 and resulted in the retirement of 14.4 million shares of common stock.

On October 26, 2004, the company's Board of Directors authorized the repurchase of up to \$1 billion of its outstanding common stock which is expected to be completed over a twelve to eighteen-month period and commenced in November 2004. The share repurchases will 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. Under this authorization, the company repurchased 5.5 million shares for \$309 million through December 31, 2004.

**NORTHROP GRUMMAN CORPORATION**

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

<i>in millions, except per share</i>	Year ended December 31		
	2004	2003	2002
<b>Basic Earnings Per Share</b>			
Income from continuing operations before cumulative effect of accounting change	\$ 1,093	\$ 758	\$ 455
Less dividends on mandatorily redeemable preferred stock		12	25
Income available to common shareholders from continuing operations before cumulative effect of accounting change	\$ 1,093	\$ 746	\$ 430
Weighted-average common shares outstanding	359.7	365.3	231.1
<b>Basic Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change</b>	<b>\$ 3.04</b>	<b>\$ 2.04</b>	<b>\$ 1.86</b>
<b>Diluted Earnings Per Share</b>			
Income from continuing operations before cumulative effect of accounting change	\$ 1,093	\$ 758	\$ 455
Less dividends on mandatorily redeemable preferred stock		12	25
Income available to common shareholders from continuing operations before cumulative effect of accounting change	\$ 1,093	\$ 746	\$ 430
Weighted-average common shares outstanding	359.7	365.3	231.1
Dilutive effect of stock options, awards, and equity security units	5.3	3.1	3.8
Weighted-average diluted shares outstanding	365.0	368.4	234.9
<b>Diluted Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change</b>	<b>\$ 2.99</b>	<b>\$ 2.03</b>	<b>\$ 1.83</b>

**8. ACCOUNTS RECEIVABLE, NET**

Unbilled amounts represent sales for which billings have not been presented to customers at year-end, including differences between actual and estimated overhead and margin rates. These amounts are usually billed and collected within one year. Progress payments are received on a number of fixed-price contracts accounted for using the cost-to-cost measure of the percentage-of-completion method.

Accounts receivable at December 31, 2004, are expected to be collected in 2005 except for approximately \$114 million due in 2006 and \$41 million due in 2007 and later.

Allowances for doubtful amounts mainly represent estimates of overhead type costs which may not be successfully negotiated and collected.



[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

Accounts receivable were composed of the following:

<i>\$ in millions</i>	December 31,	
	2004	2003
<b>Due From U.S. Government, Long-Term Contracts</b>		
Current accounts		
Billed	\$ 1,210	\$ 1,088
Unbilled	25,752	20,808
Progress payments received	(24,572)	(19,752)
	<b>2,390</b>	<b>2,144</b>
<b>Due From Other Customers, Long-Term Contracts</b>		
Current accounts		
Billed	221	170
Unbilled	2,688	1,783
Progress payments received	(2,144)	(1,366)
	<b>765</b>	<b>587</b>
Total due, long-term contracts	<b>3,155</b>	<b>2,731</b>
<b>Trade And Other Accounts Receivable</b>		
Due from U.S. Government	410	465
Due from other customers	287	560
Progress payments received	(38)	(282)
Total due, trade and other	<b>659</b>	<b>743</b>
	<b>3,814</b>	<b>3,474</b>
Allowances for doubtful amounts	(268)	(248)
Total accounts receivable, net	<b>\$ 3,546</b>	<b>\$ 3,226</b>

**9. INVENTORIED COSTS, NET**

Inventoried costs were composed of the following:

<i>\$ in millions</i>	December 31,	
	2004	2003
Production costs of contracts in process	\$ 1,677	\$ 1,642
Administrative and general expenses	107	239
	<b>1,784</b>	<b>1,881</b>
Progress payments received	(1,049)	(1,003)
	<b>735</b>	<b>878</b>
Product inventory	326	289
Total inventoried costs, net	<b>\$ 1,061</b>	<b>\$ 1,167</b>

**NORTHROP GRUMMAN CORPORATION**

**10. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS**

**Goodwill**

Goodwill and other purchased intangible assets balances are included in the identifiable assets of the segment to which they have been assigned. In accordance with SFAS No. 142, impairment tests are performed at least annually and more often as circumstances require. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment's operating margin. The annual impairment test for all sectors except Mission Systems and Space Technology was performed as of April 30, 2004, with no indication of impairment. The impairment test for Mission Systems and Space Technology was performed as of November 30, 2004, with no indication of impairment. In performing the goodwill impairment tests, the company uses a discounted cash flow approach corroborated by comparative market multiples, where appropriate, to determine the fair value of reporting units. A goodwill impairment charge of \$47 million related to a Component Technologies business sold in 2004 was recorded in 2003 based on the excess of the net carrying value of the business' net assets in comparison to the then current negotiated sale price for the business.

*Realignment* – Effective January 1, 2004, the company realigned businesses among its Mission Systems, Information Technology, and Integrated Systems segments. As a result of this realignment, goodwill of approximately \$1.3 billion from the TRW acquisition was reallocated among these three segments as required by SFAS No. 142. This realignment is reflected in the table below. In connection with this realignment, the company performed impairment tests of the Mission Systems, Information Technology, and Integrated Systems segments as of January 1, 2004, before and after the realignment with no indication of impairment.

The changes in the carrying amounts of goodwill for the years ended December 31, 2004 and 2003, are summarized below.

<i>\$ in millions</i>	<b>Electronic Systems</b>	<b>Ships</b>	<b>Information Technology</b>	<b>Missions Systems</b>	<b>Integrated Systems</b>	<b>Space Technology</b>	<b>Total</b>
Balance as of January 1, 2003	\$ 2,557	\$3,635	\$ 1,117	\$ 3,705	\$ 938	\$ 3,705	\$15,657
Goodwill acquired			11	39			50
Fair value adjustments to net assets acquired	42		(6)	1,893		(303)	1,626
Balance as of December 31, 2003	2,599	3,635	1,122	5,637	938	3,402	17,333
Goodwill transferred due to segment realignment			1,292	(1,309)	17		
Goodwill of business sold	(13)			(3)			(16)
Fair value adjustments to net assets acquired	11	(5)	(16)	(60)		(65)	(135)
<b>Balance as of December 31, 2004</b>	<b>\$ 2,597</b>	<b>\$3,630</b>	<b>\$ 2,398</b>	<b>\$ 4,265</b>	<b>\$ 955</b>	<b>\$ 3,337</b>	<b>\$17,182</b>

*Fair Value Adjustments to Net Assets Acquired* – During 2003, the company recorded an aggregate increase to goodwill of approximately \$1.6 billion, primarily due to fair value adjustments to retiree benefits liabilities and debt assumed from the acquisition of TRW.

For 2004, the fair value adjustments were primarily due to the resolution of pre-acquisition tax uncertainties associated with the Litton, Newport News, and TRW acquisitions. The adjustments relating to Litton and

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

Newport News primarily resulted from audits by the Internal Revenue Service. The TRW adjustments were primarily related to the utilization of a portion of the capital loss carryforward recognized at the time of acquisition. Due to the uncertainty related to the company's ability to fully utilize this capital loss carryforward, a valuation allowance equal to the full amount of the related tax benefit was recorded as of the acquisition date. Any reduction to this valuation allowance is recorded as a reduction of goodwill.

**Purchased Intangible Assets**

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

<i>\$ in millions</i>	December 31, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 2,572	\$ (1,146)	\$ 1,426	\$ 2,587	\$ (934)	\$ 1,653
Other purchased intangibles	110	(59)	51	110	(53)	57
<b>Total</b>	<b>\$ 2,682</b>	<b>\$ (1,205)</b>	<b>\$ 1,477</b>	<b>\$ 2,697</b>	<b>\$ (987)</b>	<b>\$ 1,710</b>

All of the company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 22 years. Aggregate amortization expense during 2004, 2003, and 2002, was \$226 million, \$233 million, and \$172 million, respectively.

The table below shows expected amortization for purchased intangibles as of December 31, 2004, for the next five years:

<i>\$ in millions</i>	
Year ended December 31	
2005	\$215
2006	126
2007	114
2008	108
2009	96

**11. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Carrying amounts and the related estimated fair values of the company's financial instruments are as follows:

<i>\$ in millions</i>	December 31,			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,230	\$ 1,230	\$ 294	\$ 294
Investments in marketable securities	55	55	50	50
Investment in Auto	213	352	170	170
Note receivable			499	482
Short-term notes payable	(9)	(9)	(19)	(19)
Long-term debt	(5,149)	(5,833)	(5,872)	(6,509)
Mandatorily redeemable preferred stock	(350)	(469)	(350)	(436)
Interest rate swaps	7	7		
Forward share sale agreements				
Liability portion			(13)	(13)
Hedge portion			13	13
Foreign currency forward contracts	(4)	(4)	2	2

## **NORTHROP GRUMMAN CORPORATION**

*Short-Term Instruments* – For cash and cash equivalents and amounts borrowed under the company’s short-term credit lines, the carrying amounts approximate fair value, due to the short-term nature of these items.

*Investments in Marketable Securities* –The company holds a portfolio of equity securities that are classified as trading securities. The portfolio is managed by an asset management company that invests in equities with performance and risk factors closely correlated to the Russell 3000 Index (Frank Russell Company). During the years ended December 31, 2004, and 2003, the company recorded approximately \$6 million and \$11 million, respectively, in unrealized gains from holding these securities, which is included in “Other, net” in the accompanying Consolidated Statements of Income. As of December 31, 2004, and 2003, the aggregate fair value of these marketable securities was \$54 million and \$48 million, respectively. The company also holds equity securities classified as available-for-sale marketable securities, which were recorded at their fair value of \$1 million and \$2 million as of December 31, 2004, and 2003, respectively. The company’s investments in marketable securities are included in “Prepaid expenses and other current assets” in the accompanying Consolidated Statements of Financial Position.

*Investment in Auto* – The company’s investment in Auto represents the company’s equity interest in TRW Automotive Holdings Corp. received upon the completion of the sale of Auto. On February 2, 2004, TRW Automotive Holdings Corp. completed an initial public offering, and the stock began trading publicly on the New York Stock Exchange (trading symbol TRW) on February 3, 2004. The company’s equity ownership position following the initial public offering was 17.2 percent. It was not practical to determine a fair value of this equity interest as of December 31, 2003, as the common stock did not trade publicly at that time.

In January 2004, restrictions on the equity investment in Auto were amended to provide the company more flexibility in the disposition of its shares. Under the amended agreement, approximately 4 million shares become available for sale through December 31, 2005. Accordingly, these shares have been reported as available-for-sale securities totaling \$83 million as of December 31, 2004. The amount recorded reflects the corresponding publicly traded stock price of Auto and is included in “Prepaid expenses and other current assets” in the accompanying Consolidated Statements of Financial Position. The remaining equity investment of \$130 million and \$170 million as of December 31, 2004 and December 31, 2003, respectively, is carried at cost and is included in “Other assets” in the accompanying Consolidated Statements of Financial Position.

*Note Receivable* – On October 10, 2004, the company reached an agreement with Auto regarding the repurchase of the payment-in-kind note as described in Note 5.

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

*Mandatorily Redeemable Preferred Stock* – The fair value of the mandatorily redeemable preferred stock was calculated based on the closing market price quoted on the New York Stock Exchange (trading symbol NOC-pb) at December 31, 2004, and 2003, respectively.

*Interest Rate Swaps* – The company has from time to time entered into interest rate swap agreements to mitigate interest rate risk. As described in Note 18, two interest rate swap agreements were in effect at December 31, 2004, and no agreements were in effect at December 31, 2003.

*Forward Share Sale Agreements* – In connection with the TRW acquisition, the company acquired investments in RF Micro Devices, Inc. (RFMD) and Applera Corporation-Celera Genomics Group (Celera), two publicly traded companies. These investments had been monetized through the execution of forward share sale agreements. The company also acquired certain hedges designed to protect the forecasted cash flows resulting from the future sale of shares in these investments. These hedges also mitigate any downside risk of loss and provide for additional gain

**NORTHROP GRUMMAN CORPORATION**

depending on market conditions at maturity. The investments in RFMD and Celera and the related hedge portion of the forward share sale agreements were carried at their respective fair market values in accordance with SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, as amended. As of December 31, 2004, all of the RFMD shares and Celera shares have been delivered. As the value of the investments and the hedge were equivalent during the period that the shares were held by the company, no gain or loss was realized.

*Foreign Currency* – The company enters into foreign currency forward contracts to manage foreign currency exchange risk related to receipts from customers and payments to suppliers denominated in foreign currencies. Gains and losses from such transactions are included as contract costs.

**12. INCOME TAXES**

Income tax expense, both federal and foreign, consisted of the following:

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
<b>Income Taxes on Continuing Operations</b>			
Current Payable (Refundable)			
Federal income taxes	\$ 475	\$ (176)	\$ 965
Foreign income taxes	28	18	16
	503	(158)	981
Change in deferred federal and foreign income taxes	19	455	(701)
<b>Total income taxes on continuing operations</b>	<b>\$ 522</b>	<b>\$ 297</b>	<b>\$ 280</b>

Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times the income from continuing operations before income taxes and cumulative effect of accounting change due to the following:

<i>\$ in millions</i>	Year ended December 31		
	2004	2003	2002
Income tax expense on continuing operations at statutory rate	\$ 565	\$ 370	\$ 257
Extraterritorial income exclusion/foreign sales corporation	(28)	(11)	(10)
Research tax credit	(20)	(51)	(5)
Goodwill impairment			65
Other, net	5	(11)	(27)
<b>Total federal and foreign income taxes</b>	<b>\$ 522</b>	<b>\$ 297</b>	<b>\$ 280</b>

*Deferred income taxes* – Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Such amounts are classified as current or noncurrent assets or liabilities based upon the balance sheet classification of the related assets and liabilities. The company's principal temporary differences arise from the recognition of income from long-term contracts and retiree benefit plan income/expense under different methods for financial reporting purposes and tax purposes.

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal, state and foreign tax balances, as presented in the Consolidated Statements of Financial Position, are as follows:

<i>\$ in millions</i>	December 31,	
	2004	2003
<b>Deferred Tax Assets</b>		
Retirement benefit plan expense	\$ 500	\$ 547
Contract accounting differences	574	459
Total tax credits and carryforwards		
Net operating loss		17
Capital loss	1,195	1,200
Foreign income tax credit	180	214
Other credits	45	9
Other	241	207
Gross deferred tax assets	2,735	2,653
Less valuation allowance	(1,375)	(1,407)
Net deferred tax assets	1,360	1,246
<b>Deferred Tax Liabilities</b>		
Provision for accrued liabilities	94	40
Purchased intangibles	128	134
Depreciation and amortization	494	520
Goodwill amortization	345	290
Gross deferred tax liabilities	1,061	984
Net deferred tax assets	\$ 299	\$ 262

Net deferred tax assets (liabilities) as presented in the Consolidated Statements of Financial Position are as follows:

<i>\$ in millions</i>	December 31,	
	2004	2003
Net current deferred tax assets	\$ 777	\$ 770
Net non-current deferred tax assets	28	
Net non-current deferred tax liabilities	(506)	(508)
Net deferred tax assets	\$ 299	\$ 262

*Foreign Income* – Income from continuing operations before income taxes and cumulative effect of accounting change included foreign income of \$70 million, \$40 million, and \$31 million, for the years ended December 31, 2004, 2003, and 2002, respectively. The company intends to reinvest undistributed earnings of certain non-U.S. subsidiaries, thereby indefinitely postponing their remittance. Accordingly, deferred income taxes have not been provided for accumulated undistributed earnings of \$166 million at December 31, 2004. Should these earnings be distributed in the form of dividends or otherwise, the distributions would be subject to U.S. federal income tax at the statutory rate of 35 percent, less foreign tax credits applicable to distributions, if any. In addition, such distributions would be subject to withholding taxes in the various tax jurisdictions.

*Tax Carryforwards* – The company has a capital loss carryforward of approximately \$1.2 billion (tax effected) at December 31, 2004, against which a full valuation allowance has been recorded. The majority of the capital loss carryforward, which primarily arose from the sale of Auto, will expire in 2008. Future reductions to the valuation allowance resulting from the recognition of tax benefits, if any, will reduce goodwill. In addition, the company has

## **NORTHROP GRUMMAN CORPORATION**

foreign income tax credit carryforward items of \$180 million at December 31, 2004, to offset future federal income tax liabilities, against which a full valuation allowance has been recorded. The \$180 million foreign income tax credit carryforward arose from the acquisition of TRW, and from the sale of Auto and other discontinued operations, and will expire in 2009 through 2012. In 2004, the company extended its foreign tax credit carryforward period from five to ten years based on the American Jobs Creation Act of 2004.

### **13. NOTES PAYABLE TO BANKS AND LONG-TERM DEBT**

The company has available short-term credit lines in the form of money market facilities with several banks. The amount and conditions for borrowing under these credit lines depend on the availability and terms prevailing in the marketplace. No fees or compensating balances are required for these credit facilities.

*TRW Debt Reduction* – In connection with the acquisition of TRW, the company assumed various notes and debentures amounting to approximately \$4.8 billion. In March 2003, the company's wholly owned subsidiary, Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), commenced offers to purchase any or all of certain designated outstanding debt securities in a debt reduction plan substantially completed in the second quarter of 2003. In the first phase, approximately \$2.4 billion in aggregate principal amount of outstanding debt securities were tendered and accepted for purchase, for a total purchase price of approximately \$2.9 billion (including accrued and unpaid interest on the securities). In the second phase, the company purchased on the open market \$658 million in aggregate principal amount for a total purchase price of \$795 million (including accrued and unpaid interest on the securities).

*Credit Facility* – At December 31, 2004, \$2.5 billion was available under the five-year revolving credit facility. Borrowings under the credit facility bear interest at various rates, including adjusted London Interbank Offered Rate (LIBOR), or an alternate base rate plus an incremental margin based on the company's credit rating. The credit facility also provides for a facility fee on the daily aggregate amount of commitments (whether or not utilized). The facility fee is also based on the company's credit rating level. The company's credit agreements contain various restrictive covenants relating to the payment of dividends, acquisition of the company's stock, minimum fixed charges, aggregate indebtedness for borrowed money, interest coverage, as well as customary covenants, representations and warranties, funding conditions and events of default.

*Equity Security Units* – In November 2001, the company issued 6.9 million equity security units. Each equity security unit, issued at \$100 per unit, initially consisted of a contract to purchase shares of Northrop Grumman common stock on November 16, 2004, and a \$100 senior note due 2006. The senior notes due 2006 are reported as long-term debt. The senior notes initially bore interest at 5.25 percent per annum, and each equity security unit paid a contract adjustment payment of 2.0 percent per annum through November 16, 2004, for a combined yield on the equity security unit of 7.25 percent per annum through November 16, 2004.

On August 11, 2004, the company remarketed the senior notes as required by the original terms of the equity security units. As a result of this remarketing, the interest rate on the senior notes was reset to 4.079 percent per annum effective August 16, 2004. Proceeds from the remarketed notes were used to purchase U.S. Treasury securities that were pledged to secure the stock purchase obligations of the unit holders and held with a collateral agent.

On November 16, 2004, the company received \$690 million and issued 13.2 million shares of common stock in settlement of the stock purchase contracts. The number of shares issued was calculated using a conversion ratio of 1.9171 shares per each equity security unit, which was determined in accordance with the original terms of the stock purchase contracts.

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

*Debt Redemption* – On October 15, 2004, the company redeemed all of its outstanding \$250 million 9.375 percent debentures due 2024. The redemption price was 104.363 percent of the principal amount plus accrued and unpaid interest through the redemption date. As a result of the redemption, the company recorded a \$13 million pre-tax charge in 2004 included in “Other, net” in the Consolidated Statements of Income.

Long-term debt consisted of the following.

<i>\$ in millions</i>	December 31,	
	2004	2003
Notes and debentures due 2005 to 2036, rates from 6.05% to 9.375%	\$ 5,064	\$ 5,780
Other indebtedness due 2005 to 2024, rates from 7.0% to 8.5%	85	92
Total long-term debt	5,149	5,872
Less current portion	33	462
Long-term debt, net of current portion	\$ 5,116	\$ 5,410

Indentures underlying long-term debt issued by the company or its subsidiaries contain various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt of subsidiaries.

Maturities of long-term debt as of December 31, 2004, are as follows:

<i>\$ in millions</i>	
2005	\$ 33
2006	1,211
2007	73
2008	108
2009	472
Thereafter	3,171
Total principal payments	5,068
Unamortized premium on long-term debt, net of discount	81
Total long-term debt	\$5,149

The premium on long-term debt primarily represents non-cash fair market value adjustments resulting from the acquisitions of Litton and TRW.

**14. MANDATORILY REDEEMABLE SERIES B CONVERTIBLE PREFERRED STOCK**

The company issued 3.5 million shares of mandatorily redeemable Series B Convertible Preferred Stock in April 2001. Each share of Series B preferred stock has a liquidation value of \$100 per share. The liquidation value, plus accrued but unpaid dividends, is payable on April 4, 2021, the mandatory redemption date. The company has the option to redeem all but not less than all of the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company’s common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Under this option, were the redemption to have taken place at December 31, 2004, each share would have been converted into 1.819 shares of common stock. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company’s common stock. Initially, each share was convertible into .911 shares of common stock, subject to adjustment in the event of certain dividends and distributions, a stock split, a merger, consolidation or sale of substantially all of the company’s assets,



## NORTHROP GRUMMAN CORPORATION

a liquidation or distribution, and certain other events. Were the conversion to have taken place at December 31, 2004, each share would have been converted into 1.822 shares of common stock, reflecting adjustment for the stock split discussed in Note 3. Holders of preferred stock are entitled to cumulative annual cash dividends of \$7 per share, payable quarterly. In any liquidation of the company, each share of preferred stock is entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a change in control of the company, holders of Series B preferred stock also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction.

Effective July 1, 2003, the company adopted SFAS No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Following adoption of the standard, mandatorily redeemable preferred stock is reported as a long-term liability in the Consolidated Statements of Financial Position. As of December 31, 2004, 10 million preferred stock shares are authorized and 3.5 million shares are issued and outstanding.

### 15. RETIREMENT BENEFITS

#### Plan Descriptions

*Pension Benefits* – The company sponsors several defined benefit pension plans covering approximately 90 percent of its employees. Pension benefits for most employees are based on the employee's years of service and compensation. It is the policy of the company to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U. S. Government regulations, by making payments into benefit trusts separate from the company. Starting in July 2003, the pension benefit for most employees was based upon new criteria, whereby employees earn age and service points over their employment period. Subsequent to the 2003 initial phase-in, other exempt and non-exempt plans were conformed to the new model. No settlement or curtailments arose as a result of these changes. Union plans were not affected by these plan modifications. Eight of the company's 21 qualified plans, which cover more than 50 percent of all employees, were in a legally defined full-funding limitation status at December 31, 2004.

*Defined Contribution Plans* – The company also sponsors 401(k) defined contribution plans in which most employees are eligible to participate. Company contributions for most plans are based on a cash matching of employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. In 2004, the company also participated in a multiemployer plan for a small group of union employees. The company's contributions to these plans for the years ended December 31, 2004, 2003, and 2002, were \$219 million, \$204 million, and \$148 million, respectively.

*Medical and Life Benefits* – The company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Certain employees achieve eligibility to participate in these contributory plans upon retirement from active service and if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Approximately 60 percent of the company's current retirees participate in the medical plans. The company reserves the right to amend or terminate the plans at any time. Premiums charged retirees for medical coverage are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, copayments, coinsurance percentages, out-of-pocket limits, schedule of reasonable fees, managed care providers, maintenance of benefits with other plans, Medicare carve-out, and a maximum lifetime benefit of from \$250,000 to \$1,000,000 per covered individual. It is the policy of the company to fund the maximum amount deductible for income tax purposes utilizing the Voluntary Employees' Beneficiary Association (VEBA) trust established for the Northrop Retiree Health Care Plan for Retired Employees for payment of benefits.

**NORTHROP GRUMMAN CORPORATION**

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. During the third quarter of 2004, the company elected to record the effects of the Act retroactively to January 1, 2004, for its two largest plans, in accordance with the guidelines of FSP FAS 106-2.

The effect of the Medicare prescription drug subsidy on the net periodic postretirement benefit cost for the year ended December 31, 2004, was a reduction of \$17 million, comprised of \$2 million in service cost, \$8 million in interest cost, and \$7 million in actuarial loss. The reduction in the accumulated postretirement benefit obligation as a result of the subsidy was \$181 million as of December 31, 2004. The reduction recognized reflects the impact on four plans that the company has determined to be eligible for the subsidy.

Final regulations were released by the Centers for Medicare and Medicaid Services on January 21, 2005. In light of these final regulations, the company is further assessing whether any of its other plans will qualify for the federal subsidy. If it is determined that any of the company's other plans do qualify for the federal subsidy, the effect of the additional subsidy will be recorded in the period in which that determination is made.

**Summary Plan Results**

The cost to the company of these plans in each of the three years ended December 31 is shown in the following table:

<i>\$ in millions</i>	Pension Benefits			Medical and Life Benefits		
	2004	2003	2002	2004	2003	2002
<b>Components of Net Periodic Benefit Cost (Income)</b>						
Service cost	\$ 564	\$ 491	\$ 303	\$ 56	\$ 52	\$ 34
Interest cost	1,050	1,022	859	175	176	128
Expected return on plan assets	(1,378)	(1,195)	(1,289)	(46)	(39)	(29)
Amortization of						
Prior service costs	51	55	51			1
Transition assets, net			(34)			
Net loss from previous years	55	196	14	7	15	1
Settlement cost (income)		4	2			(3)
Special termination benefits cost	1			8	4	
Other	7					
<b>Net periodic benefit cost (income)</b>	<b>350</b>	<b>573</b>	<b>(94)</b>	<b>200</b>	<b>208</b>	<b>132</b>
Less net periodic benefit cost (income) from discontinued operations		5	(4)			
<b>Net periodic benefit cost (income) from continuing operations</b>	<b>\$ 350</b>	<b>\$ 568</b>	<b>\$ (90)</b>	<b>\$200</b>	<b>\$208</b>	<b>\$132</b>

[Table of Contents](#)
**NORTHROP GRUMMAN CORPORATION**

The following tables set forth the funded status and amounts recognized in the Consolidated Statements of Financial Position for the company's defined-benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as 22 unfunded non-qualified plans for benefits provided to directors, officers, and employees either beyond those provided by, or payable under, the company's qualified plans. The company uses a December 31 measurement date for most of its plans.

<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2004	2003	2004	2003
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year	\$16,872	\$21,524	\$ 2,986	\$ 3,809
Service cost	564	491	56	52
Interest cost	1,050	1,022	175	176
Plan participants' contributions	21	24	72	63
Special termination benefits			8	4
Plan amendments	84	50	(13)	(3)
Actuarial loss	1,555	205	198	124
Divestitures	(81)	(5,216)		(978)
Acquisitions/transfers	302	(90)		(17)
Settlements		(47)		
Benefits paid	(1,029)	(1,091)	(259)	(244)
Benefit obligation at end of year	19,338	16,872	3,223	2,986
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	15,985	18,532	688	561
Gain on plan assets	2,076	3,023	71	131
Employer contributions	624	329	182	177
Plan participants' contributions	21	24	72	63
Divestitures	(83)	(4,808)		
Acquisitions/transfers	143	24		
Settlements		(48)		
Benefits paid	(1,029)	(1,091)	(259)	(244)
Other	(17)			
Fair value of plan assets at end of year	17,720	15,985	754	688
Funded status	(1,618)	(887)	(2,469)	(2,298)
Unrecognized prior service cost	322	289	(10)	3
Unrecognized net transition obligation	2			
Unrecognized net loss	2,647	1,799	562	397
Net asset (liability) recognized	\$ 1,353	\$ 1,201	\$(1,917)	\$(1,898)
<b>Amounts Recognized in the Statements of Financial Position</b>				
Prepaid benefit cost	\$ 2,868	\$ 2,918	\$ 46	\$ 44
Accrued benefit liability	(1,773)	(1,869)	(1,963)	(1,942)
Intangible asset	24	26		
Accumulated other comprehensive loss	234	126		
Net asset (liability) recognized	\$ 1,353	\$ 1,201	\$(1,917)	\$(1,898)

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

The accumulated benefit obligation for all defined benefit pension plans was \$17.5 billion and \$15.4 billion at December 31, 2004 and 2003, respectively.

Amounts for pension plans with accumulated benefit obligations in excess of plan assets are as follows:

<i>\$ in millions</i>	December 31,	
	2004	2003
Projected benefit obligation	\$ 5,880	\$ 4,617
Accumulated benefit obligation	4,858	3,782
Fair value of plan assets	3,544	2,667

**Plan Assumptions**

On a weighted-average basis, the following assumptions were used to determine the benefit obligations and the net periodic benefit cost:

	Pension Benefits		Medical and Life Benefits	
	2004	2003	2004	2003
<b>Assumptions Used to Determine Benefit Obligation at December 31</b>				
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of compensation increase	4.00%	4.00%		
<b>Assumptions Used to Determine Benefit Cost for the Year Ended December 31</b>				
Discount rate	6.25%	6.50%	6.25%	6.50%
Expected long-term return on plan assets	8.75%	9.00%	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%		

These assumptions also were used in retiree health care and life insurance benefit calculations with one modification. Since, unlike the pension trust, the earnings of the VEBA trust are taxable, the above long-term rate of return on plan assets was reduced accordingly to an after-tax rate.

Through consultation with investment advisors, expected long-term returns for each of the plans' strategic asset classes were developed. Several factors were considered, including survey of investment managers' expectations, current market data such as yields/price-earnings ratios, and historical market returns over long periods. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return was calculated.

Health care cost trend rate assumptions used to determine the expected cost of retiree health care plans are as follows:

	2004	2003
Health care cost trend rate assumed for next year	10.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2009	2008

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in health care cost trend rates would have the following effects:

<i>\$ in millions</i>	1-Percentage-Point Increase	1-Percentage-Point Decrease
Increase (decrease) from change in health care cost trend rates to		
Postretirement benefit expense	\$ 29	\$ (24)
Postretirement benefit liability	352	(293)

**Plan Assets and Investment Policy**

Weighted-average asset allocations at December 31 by asset category are as follows:

	Pension Plan Assets		Medical and Life Benefits Plan Assets	
	2004	2003	2004	2003
Equity securities	64%	64%	79%	78%
Debt securities	29	28	19	22
Real estate	1	2		
Other	6	6	2	
<b>Total</b>	<b>100%</b>	100%	<b>100%</b>	100%

Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goals are (1) to exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk, and (2) to preserve the real purchasing power of assets to meet future obligations. Liability studies are conducted on a regular basis to provide guidance in setting investment goals with an objective to balance risk. Risk targets are established and monitored against acceptable ranges.

All investment policies and procedures are designed to ensure that the plans' investments are in compliance with the Employee Retirement Income Security Act. Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk, and for fixed income management. Other uses of derivatives, including for speculation, are prohibited.

The investment policies for most of the pension plans require that the asset allocation be maintained within the following ranges:

	Asset Allocation Ranges
U.S. equity securities	30 – 40%
International equity securities	15 – 25
Debt securities	25 – 35
Real estate and other	10 – 20

Current policies for the plans target an asset mix of 70% in total equity securities and 30% in debt and other securities.

At December 31, 2004, the pension plans and VEBA trust did not hold any Northrop Grumman common stock. Equity securities held by pension plans include Northrop Grumman Corporation common stock in the amounts of

**NORTHROP GRUMMAN CORPORATION**

\$664 million (4 percent of total plan assets) at December 31, 2003. Equity securities in the VEBA trust include Northrop Grumman Corporation common stock in the amounts of \$9.7 million (2 percent of total plan assets) at December 31, 2003.

In 2005, the company expects to contribute approximately \$205 million to its pension plans and approximately \$184 million to its other postretirement benefit plans.

**Benefit Payments**

The following table reflects estimated benefit payments, based upon the same assumptions used to measure the benefit obligation, and include expected future employee service, as of December 31, 2004:

<i>\$ in millions</i>	Pension Benefits	Medical and Life Benefits
2005	\$ 1,028	\$ 197
2006	1,054	194
2007	1,096	201
2008	1,148	204
2009	1,202	208
2010 through 2014	6,865	1,097

**16. LITIGATION, COMMITMENTS, AND CONTINGENCIES**

*Litigation* – The company is subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and its internal and external legal counsel. The ultimate resolution of any exposure to the company may vary from earlier estimates as further facts and circumstances become known. While the company cannot predict the ultimate outcome of these matters, based upon available information, it is the company's expectation that known legal actions and tax matters will not have a material adverse effect on the company's financial position, results of operations, or cash flows.

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

In August 1992, in U.S. ex rel. Rex Robinson v. Northrop Grumman Corporation, the United States District Court for the Northern District of Illinois unsealed a complaint brought by four individuals in the name of the United States of America. The action was filed on August 10, 1989, seeking damages under the qui tam provision of the civil False Claims Act. The relators also sought damages as individuals for alleged retaliation. On March 1, 2005, the company agreed with the government to settle the False Claims Act case for \$62 million. The company also agreed to settle the relators' personal claims including their claim for attorney fees and to reimburse the government for previously billed legal costs incurred by the company. As a result of the settlement, the company recorded a pre-tax charge of \$35 million in the fourth quarter of 2004 and expects to pay a total of \$99 million in the first quarter of 2005.

On March 13, 2002, a jury in Indianapolis, Indiana returned a verdict of approximately \$31 million in favor of Allison Gas Turbine for cost overruns on the engine exhaust liner and trailing edge of a discontinued prototype

## **NORTHROP GRUMMAN CORPORATION**

aircraft from a competitive award process, which occurred in the 1980s. On May 3, 2002, the approximate sum of \$37 million of pre-judgment interest was awarded in this matter. On April 27, 2004, the Court of Appeals of Indiana affirmed the decision of the lower court. As a result, the company recorded an additional provision of \$62 million in 2004 for legal and interest costs relating to this matter, which is included in "Unallocated expenses" (see Note 6). On September 28, 2004, the company's appeal to the Supreme Court of Indiana was denied and the company paid \$81 million in settlement of the judgment and interest.

*Income Tax Matters* – The Internal Revenue Service has completed its audits of the B-2 program for the years ended December 31, 1997 through December 31, 2000, and has proposed an adjustment that does not affect the company's income tax liability but could result in an obligation to pay an amount of interest to the Internal Revenue Service that could be significant. The company believes the proposed adjustment will be eliminated or significantly reduced. Accordingly, the company does not believe that the adjustment proposed by the Internal Revenue Service will have a material adverse effect on the company's financial position, results of operations, or cash flows.

*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 of current or formerly owned 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 on a site-by-site basis, 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 at December 31, 2004, the range of reasonably possible future costs for all environmental remediation sites is \$278 million to \$411 million, of which \$281 million is accrued. Factors that could result in changes to the company's estimate 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 financial position, results of operations, or cash flows.

*Other Agreements* – In July and August of 2003, Ship Systems executed agreements with the states of Mississippi and Louisiana, respectively, whereby Ship Systems will lease facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ship Systems to these states. Under the Mississippi agreement, Ship Systems is required to match the state's funding with expenditures in the amount of \$121 million and create 667 new full-time jobs in Mississippi by December 2007. Under the Louisiana agreement, Ship Systems is required to match the state's funding with expenditures in the amount of \$56 million through 2007, and employ a minimum of 5,200 full-time employees in 16 of the 32 fiscal quarters beginning January 1, 2003, and ending December 31, 2010. Failure by Ship Systems to meet these commitments would result in reimbursement by Ship Systems to Mississippi and Louisiana in accordance with the respective agreements.

*Financial Arrangements* – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At December 31, 2004, there were \$492 million of unused stand-by letters of credit, \$150 million of bank guarantees, and \$532 million of surety bonds outstanding.

## **NORTHROP GRUMMAN CORPORATION**

*Operating Leases* – Rental expense for operating leases, excluding discontinued operations, was \$456 million in 2004, \$472 million in 2003, and \$307 million in 2002. These amounts are net of sublease rental income of \$9 million in 2004, \$8 million in 2003, and \$5 million in 2002. Minimum rental commitments under long-term noncancellable operating leases as of December 31, 2004, total \$1.8 billion, which are payable as follows: 2005 - \$386 million; 2006 - \$289 million; 2007 - \$243 million; 2008 - \$205 million; 2009 - \$178 million; and thereafter - \$518 million. In addition, the company has contracts for future sublease income totaling \$18 million.

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

### **17. STOCK COMPENSATION PLANS**

At December 31, 2004, Northrop Grumman had three stock-based compensation plans: the 2001 Long-Term Incentive Stock Plan (2001 LTISP), and the 1993 Long-Term Incentive Stock Plan (1993 LTISP), both applicable to employees, and the 1995 Stock Option Plan for Non-Employee Directors (SOPND). All of these plans are approved by the company's shareholders.

*Employee Plans* – The 2001 LTISP and the 1993 LTISP permit grants to key employees of three general types of stock incentive awards: stock options, stock appreciation rights (SARs), and stock awards. Each stock option grant is made with an exercise price either at the closing price of the stock on the date of grant (market options) or at a premium over the closing price of the stock on the date of grant (premium options). Options generally vest in 25 percent increments one, two, three, and four years from the grant date under the 2001 LTISP and two, three, four, and five years from the grant date under the 1993 LTISP. Under both plans, options expire ten years after the grant date. No SARs have been granted under either of the LTISPs. Stock awards, in the form of restricted performance stock rights and restricted stock rights, are granted to key employees without payment to the company. Under the 2001 LTISP, recipients of restricted performance stock rights earn shares of stock based on an economic value added (EVA) metric over a three-year performance period with distributions made entirely at the end of the third year. If at the end of the applicable performance period objectives have not been met, unearned rights up to 100 percent of the original grant for five elected officers and the three next highest compensated employees, and up to 70 percent of the original grant for all other recipients, will be forfeited. Restricted stock rights issued under either plan vest annually, generally over three years. Termination of employment can result in forfeiture of some or all of the benefits extended under the plan. Of the 50 million shares approved for issuance under the 2001 LTISP, approximately 25 million shares were available for future grants as of December 31, 2004.

*Nonemployee Plan* – The SOPND permits grants of stock options to nonemployee directors. Each grant of a stock option is made at the closing market price on the date of the grant, is immediately exercisable, and expires ten years after the grant date. At December 31, 2004, approximately 345,000 shares were available for future grants under the SOPND.

*Stock Awards* – Compensation expense for restricted performance stock rights is estimated and recognized over the vesting period. The fixed 30 percent minimum distribution portion is measured at the grant date fair value and the variable portion is adjusted to the fair value at the end of each accounting period. Compensation expense for restricted stock rights is measured at the grant date fair value and recognized over the vesting period. Restricted performance stock rights and restricted stock rights were granted with weighted-average grant-date fair values per share as follows: 2004 – 126,900 at \$52; 2003 – 2,294,600 at \$47; and 2002 – 1,692,290 at \$57. Restricted performance stock rights and restricted stock rights for approximately 6.5 million common shares were outstanding as of December 31, 2004, with a weighted-average grant-date fair value per share of \$48.

*Option Conversions* – In connection with the acquisition of Litton, the company converted Litton stock options to company stock options. For Litton options only, a reduction of shareholders' equity was recorded and is being amortized as compensation expense through 2005. Acquired TRW options were converted to the company's options and fully vested on the date of acquisition.



**NORTHROP GRUMMAN CORPORATION**

*Compensation Expense* – Total stock-based compensation expense was \$178 million in 2004, \$99 million in 2003, and \$69 million in 2002.

Stock option activity for the last three years is summarized below:

	Shares Under Option	Weighted- Average Exercise Prices	Shares Exercisable	Weighted- Average Exercise Prices
<b>Outstanding at January 1, 2002</b>	13,425,226	\$ 39	4,347,558	\$ 40
Granted, market options	4,510,126	57		
Options converted upon acquisition of TRW	11,620,462	46		
Cancelled	(399,518)	39		
Exercised	(2,368,700)	38		
<b>Outstanding at December 31, 2002</b>	26,787,596	45	17,063,492	45
Granted, market options	5,330,978	47		
Cancelled	(456,882)	43		
Exercised	(941,658)	33		
<b>Outstanding at December 31, 2003</b>	30,720,034	46	19,767,056	45
Granted, market options	5,427,984	52		
Cancelled	(550,540)	48		
Exercised	(3,367,847)	38		
<b>Outstanding at December 31, 2004</b>	<b>32,229,631</b>	<b>48</b>	<b>20,172,357</b>	<b>46</b>

At December 31, 2004, the following stock options were outstanding:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Prices	Number Exercisable	Weighted- Average Exercise Prices
\$ 14 to 45	8,847,941	5.2 years	\$ 38	7,725,789	\$ 38
46 to 48	7,953,487	6.8 years	47	4,188,007	47
49 to 52	8,458,923	7.3 years	52	3,155,332	50
53 to 64	6,969,280	6.5 years	56	5,103,229	56
	<b>32,229,631</b>		<b>48</b>	<b>20,172,357</b>	<b>46</b>

**18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

The company accounts for derivative financial instruments in accordance with SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that all derivative financial instruments be recognized as assets or liabilities in the financial statements and measured at fair value. Changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges are required to be recorded in earnings, while changes in the fair value of derivative financial instruments that qualify and are designated as cash flow hedges are recorded as other comprehensive income.

The company uses derivative financial instruments to manage its exposure to interest rate risk and to balance its fixed and variable rate long-term debt portfolio. The company does not use derivative financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

**NORTHROP GRUMMAN CORPORATION**

During 2004, the company entered into two interest rate swap agreements designed to convert fixed rates associated with long-term debt obligations to floating rates. These interest rate swaps each hedge a \$200 million notional amount of U.S. dollar fixed rate debt, and mature on October 15, 2009, and February 15, 2011, respectively.

These swap agreements hedge the company's risk related to changes in interest rates on the fair value of the company's fixed rate debt. The critical terms of the interest rate swaps are aligned with those of the hedged items, thereby satisfying the criteria for the short-cut method of accounting defined by SFAS No. 133. In accordance with SFAS No.133, these swaps are accounted for as fair value hedges. Any changes in the fair value of the swaps are offset by an equal and opposite change in the fair value of the hedged item, therefore there is no net impact to the company's reported results of operations. The aggregate net fair value of the swaps at December 31, 2004, was an asset of approximately \$7 million, which is included in "Other assets" in the accompanying Consolidated Statements of Financial Position.

**19. UNAUDITED SELECTED QUARTERLY DATA**

Unaudited quarterly financial results are set forth in the following tables together with dividend and common stock price data. The company's common stock is traded on the New York Stock Exchange and Pacific Exchange (trading symbol NOC). This unaudited quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ended on March 31, second quarter as ended on June 30, and third quarter as ended on September 30. It is our long-standing practice to establish actual interim closing dates using a "fiscal" calendar, which requires our businesses to close their books on a Friday, in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist within a reporting year.

*Restatement for Medicare Part D Subsidy* – During the third quarter of 2004, the company recorded the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 retroactively to January 1, 2004, in accordance with the guidelines of FSP FAS 106-2 – *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (see Note 2). The operating margin, income, and earnings per share data in the table below have been restated to reflect the impact of this retroactive adjustment on the results of operations for the first and second quarters of 2004.

<b>2004 Quarters</b> \$ in millions, except per share	<b>For the Quarter Ended</b>			
	<b>Dec. 31</b>	<b>Sep. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>
Total revenue	\$ 7,846	\$ 7,408	\$ 7,435	\$ 7,164
Operating margin	538	538	492	438
Income from continuing operations	273	290	298	232
Net income	272	278	298	236
Basic earnings per share from continuing operations	.76	.81	.83	.64
Basic earnings per share	.75	.78	.83	.65
Diluted earnings per share from continuing operations	.74	.80	.82	.64
Diluted earnings per share	.74	.76	.82	.65
Dividends per common share	.23	.23	.23	.20
Dividends per mandatorily redeemable preferred share	1.75	1.75	1.75	1.75
<b>Stock Price Per Share</b>				
High	57.75	54.69	53.70	52.11
Low	49.94	50.22	48.73	47.34

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

*Significant Events* – In the first quarter of 2004, one of the CT businesses, Kester, was sold for approximately \$60 million in cash resulting in an after-tax gain of approximately \$3 million. Also in the first quarter, the company recorded a pre-tax charge of \$62 million for additional legal and interest costs relating to the judgment in the Allison Gas Turbine case.

In the second quarter of 2004, the company's Board of Directors approved a two-for-one stock split of the company's common stock and a 15 percent common stock dividend increase. Also in the second quarter, the company recorded a pre-tax charge of \$60 million for the F-16 Block 60 fixed-price development program reported in the Electronic Systems segment. During the same period, the company completed studies and recognized additional tax credits of approximately \$31 million related to research and development activities and extraterritorial income exclusion for the years 1997 through 2003.

During the third quarter of 2004, the company paid \$81 million in settlement of the judgment and interest related to the Allison Gas turbine case. In addition, the company reached an agreement with Auto regarding the repurchase of the payment-in-kind note and the resolution of outstanding contractual issues arising from the sale of Auto, and an agreement with The Blackstone Group to resolve an indemnification of other postretirement employee benefits arising from the sale of Auto. As a result of these agreements, the company recorded a \$9 million after-tax impairment charge to continuing operations relating to the note repurchase and a \$6 million after-tax charge to discontinued operations related to the settlement of the indemnification and other contractual issues. Also in the third quarter of 2004, the company suspended its efforts to sell the remaining three CT businesses and reclassified the assets, liabilities, and results of operations of these businesses from discontinued to continuing operations.

In the fourth quarter, the company recorded a pre-tax charge of \$42 million for the increased projected costs for the Wedgetail fixed-price development program in the Electronic Systems segment. Also in the fourth quarter, the company sold its Canadian navigation systems and space sensors systems businesses for \$65 million in cash, which resulted in a \$9 million after-tax gain recorded in discontinued operations. In addition, the company and Goodrich resolved certain post-closing liabilities related to warranty, customer claims, and certain other matters in exchange for a payment to Goodrich of \$99 million resulting in a \$15 million after-tax charge to discontinued operations. In the fourth quarter of 2004, the company received \$493.5 million from the sale of the Auto payment-in-kind note, which was net of \$40.5 million for settlement of the contractual issues, paid \$52.5 million for settlement of the indemnification discussed above, and made a voluntary pre-funding payment to the company's pension plans of \$250 million. The company recorded a pre-tax charge of \$35 million in the fourth quarter related to the settlement of the Robinson litigation (see Note 16).

2003 Quarters	For the Quarter Ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31
<i>\$ in millions, except per share</i>				
Total revenue	\$ 7,149	\$ 6,664	\$ 6,672	\$ 5,911
Operating margin	362	394	384	328
Income from continuing operations	183	200	203	172
Net income	224	184	205	253
Basic earnings per share from continuing operations	.50	.55	.54	.45
Basic earnings per share	.62	.50	.54	.68
Diluted earnings per share from continuing operations	.50	.54	.53	.45
Diluted earnings per share	.61	.50	.54	.67
Dividends per common share	.20	.20	.20	.20
Dividends per mandatorily redeemable preferred share	1.75	1.75	1.75	1.75
<b>Stock Price Per Share</b>				
High	47.80	48.56	45.95	50.22
Low	42.38	42.46	40.11	39.50

## **NORTHROP GRUMMAN CORPORATION**

*Significant Events* – In the first quarter of 2003, the company paid \$1 billion in taxes upon completion of the B-2 EMD contract and recorded \$26 million in research and development tax credits.

In the second quarter of 2003, the company recorded a pre-tax charge of \$68 million for the Polar Tanker program in the Ships segment.

In the third quarter of 2003, the company recorded an after-tax loss from discontinued operations of \$46 million, including a goodwill impairment charge of \$47 million. Also in the third quarter, the company settled two civil False Claim Act cases (Newport Shipbuilding, Inc. and Jordan), reversed the unused portion of a reserve, and recorded loss provisions for settlement offers on other legal matters, which resulted in a net gain of \$17 million.

In the fourth quarter of 2003, the company recorded a pre-tax charge of \$40 million for the F-16 Block 60 combat avionics program in the Electronic Systems segment.

In 2003, the company sold several of the businesses reported in discontinued operations: Poly-Scientific and the company's 51 percent interest in the operations of TRW Koyo Steering Systems Company in the fourth quarter; Life Support during the third quarter; Auto and the VEAM business units in the first quarter. With the exception of Auto, none of these sales, either individually or in the aggregate, had a material effect on the company's results of operations.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No information is required in response to this item.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The company's principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of December 31, 2004, 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 fourth quarter of 2004, 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.

**NORTHROP GRUMMAN CORPORATION**

**MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Northrop Grumman Corporation (the company) prepared and is responsible for the consolidated financial statements and all related financial information contained in this Annual Report. This responsibility includes establishing and maintaining adequate internal control over financial reporting. The company’s internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

To comply with the requirements of Section 404 of the Sarbanes–Oxley Act of 2002, the company designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the company’s internal control over financial reporting was based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Management regularly monitors its internal control over financial reporting, and actions are taken to correct any deficiencies as they are identified. Based on its assessment, management has concluded that the company’s internal control over financial reporting is effective as of December 31, 2004.

Deloitte & Touche LLP issued an audit report dated March 1, 2005, concerning management’s assessment of the company’s internal control over financial reporting, which is contained in this Annual Report. The company’s consolidated financial statements as of and for the year ended December 31, 2004, have been audited by the independent registered public accounting firm of Deloitte & Touche LLP in accordance with auditing standards generally accepted in the United States of America.

Ronald D. Sugar  
Chairman, Chief Executive Officer and President

Charles H. Noski  
Corporate Vice President and Chief Financial Officer

March 1, 2005

**NORTHROP GRUMMAN CORPORATION**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Northrop Grumman Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2004 of the Company and our report dated March 1, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP  
Los Angeles, California  
March 1, 2005

**NORTHROP GRUMMAN CORPORATION****Item 9B. Other Information**

No information is required in response to this item.

**PART III****Item 10. Directors and Executive Officers of the Registrant****Directors**

The information as to Directors will be incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

**Executive Officers**

The following individuals were the elected officers of the company as of February 28, 2005:

<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Business Experience Last Five Years</u>
Ronald D. Sugar	56	Chairman, Chief Executive Officer and President	2003	Chief Executive Officer and President; Prior to April 2003, President and Chief Operating Officer (2001-2003); Corporate Vice President, Northrop Grumman Corporation, and President, Litton Industries, Inc. (2001); President and Chief Operating Officer, Litton Industries, Inc. (2000-2001); President and Chief Operating Officer, TRW Aerospace & Information Systems and Member of the Chief Executive Office of TRW, Inc. (1998-2000)
Wesley G. Bush	43	Corporate Vice President and Chief Financial Officer-Elect	2005	Prior to February 7, 2005, Corporate Vice President and President, Space Technology Sector; Prior to February 2003, Corporate Vice President of Northrop Grumman Corporation (2002-2003); Executive Vice President of TRW Inc. and President and Chief Executive Officer of TRW Aeronautical Systems (2001-2002); Vice President and General Manager, TRW Ventures, TRW Space & Electronics Group (2000-2001)
Philip A. Dur	60	Corporate Vice President and President, Ship Systems Sector	2001	Vice President, Electronic Systems Sector
J. Michael Hateley	58	Corporate Vice President and Chief Human Resources and Administrative Officer	2000	Vice President, Personnel
Robert W. Helm	53	Corporate Vice President, Business Development and Government Relations	1994	

[Table of Contents](#)**NORTHROP GRUMMAN CORPORATION**

<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Business Experience Last Five Years</u>
Robert P. Iorizzo	64	Corporate Vice President and President, Electronic Systems Sector	2001	Vice President and General Manager of Command, Control, Communications, Intelligence and Naval Systems Division, Electronic Systems Sector
Alexis C. Livanos	56	Corporate Vice President and President, Space Technology Sector	2005	Vice President and General Manager of Navigation and Space Sensors Division, Electronic Systems Sector; Prior to February 2003, Executive Vice President, Boeing Satellite Systems (2000-2003); Executive Vice President of Space Systems, Loral (1996-2000)
John H. Mullan	62	Corporate Vice President and Secretary	1999	
Albert F. Myers	59	Corporate Vice President, Strategy and Development	2003	Corporate Vice President and Treasurer
Charles H. Noski	52	Corporate Vice President and Chief Financial Officer	2003	Vice Chairman of the Board, AT&T; Prior to February 2002, Senior Executive Vice President and Chief Financial Officer, AT&T (1999-2002)
Rosanne P. O'Brien	61	Corporate Vice President, Communications	2000	Vice President, Corporate Communications
James R. O'Neill	51	Corporate Vice President and President, Information Technology	2004	President, TASC, Inc.; Prior to 2002, Senior Vice President and General Manager, Oracle Services Industries (2000-2002); Senior Vice President and Officer, Lucent Technologies (1997-2000)
C. Michael Petters	45	Corporate Vice President and President, Newport News Sector	2004	Vice President, Human Resources, Administration and Trades, Newport News Sector; Prior to January 2002, Vice President of Contracts Management (2000-2001); Vice President/General Manager Carriers (1998-2000)
James L. Sanford	59	Corporate Vice President and Treasurer	2003	Vice President, Corporate Contracts and Pricing
Scott J. Seymour	54	Corporate Vice President and President, Integrated Systems Sector	2002	Vice President, Integrated Systems Sector
W. Burks Terry	54	Corporate Vice President and General Counsel	2000	Vice President, Deputy General Counsel and Sector Counsel
Donald C. Winter	56	Corporate Vice President and President, Mission Systems Sector	2002	Executive Vice President of TRW Inc. and President and Chief Executive Officer, TRW Systems; Prior to 2002, Executive Vice President of TRW Inc. and General Manager, TRW Systems (2000-2001)



[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Business Experience Last Five Years</u>
Sandra J. Wright	49	Corporate Vice President and Controller; Chief Accounting Officer	2001	Corporate Controller; Prior to May 2001, Vice President and Controller of Litton Industries, Inc. (2000-2001); Vice President and Controller of Aerojet, a Gen Corp company (1999-2000)

**Audit Committee Financial Expert**

The information as to the Audit Committee Financial Expert is incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

**Code of Ethics**

We have adopted Standards of Business Conduct for all our employees, including our principal executive officer, principal financial officer and principal accounting officer. The Standards of Business Conduct can be found on our internet web site at [www.northropgrumman.com](http://www.northropgrumman.com) under "Investor Relations – Corporate Governance – Overview."

Our web site and information contained on it or incorporated in it are not intended to be incorporated in this Annual Report on Form 10-K or our other filings with the SEC.

**Item 11. Executive Compensation**

The information as to Executive Compensation will be incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information as to Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters will be incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

**Item 13. Certain Relationships and Related Transactions**

The information as to Certain Relationships and Related Transactions will be incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

**Item 14. Principal Accountant Fees and Services**

The information as to Principal Accountant Fees and Services will be incorporated herein by reference to the Proxy Statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the company's fiscal year.

**NORTHROP GRUMMAN CORPORATION**

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

- (a) 1. Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements  
Financial Statements
  - Consolidated Statements of Financial Position
  - Consolidated Statements of Income
  - Consolidated Statements of Comprehensive Income (Loss)
  - Consolidated Statements of Cash Flows
  - Consolidated Statements of Changes in Shareholders' Equity
  - Notes to Consolidated Financial Statements
- 2. Financial Statement Schedule
  - Schedule II - Valuation and Qualifying Account

All other schedules are omitted either because they are not applicable or not required or because the required information is included in the financial statements or notes thereto.

**Exhibits**

- 3(a) Restated Certificate of Incorporation of Northrop Grumman Corporation (incorporated by reference to Exhibit C to the Definitive Proxy Statement on Schedule 14A filed April 4, 2003)
- 3(b) Amended and restated Bylaws of Northrop Grumman Corporation (incorporated by reference to Exhibit 3 to Form 10-Q for the quarter ended June 30, 2004, filed July 29, 2004)
- 4(a) Registration Rights Agreement dated as of January 23, 2001, by and among Northrop Grumman Systems Corporation, Northrop Grumman Corporation and Unitrin, Inc. (incorporated by reference to Exhibit (d)(6) to Amendment No. 4 to Schedule TO filed January 31, 2001)
- 4(b) Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Northrop Grumman Corporation (incorporated by reference to Exhibit C to the Definitive Proxy Statement on Schedule 14A filed April 13, 2001)
- 4(c) Indenture dated as of October 15, 1994, between Northrop Grumman Systems Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K dated October 20, 1994, and filed October 25, 1994)
- 4(d) Form of Officer's Certificate (without exhibits) establishing the terms of Northrop Grumman Systems Corporation's 7 percent Notes due 2006, 7.75 percent Debentures due 2016 and 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-3 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(e) Form of Northrop Grumman Systems Corporation's 7 percent Notes due 2006 (incorporated by reference to Exhibit 4-4 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(f) Form of Northrop Grumman Systems Corporation's 7.75 percent Debentures due 2016 (incorporated by reference to Exhibit 4-5 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(g) Form of Northrop Grumman Systems Corporation's 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-6 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)

**NORTHROP GRUMMAN CORPORATION**

- 4(h) Form of Officers' Certificate establishing the terms of Northrop Grumman Systems Corporation's 7.125 percent Notes due 2011 and 7.75 percent Debentures due 2031 (incorporated by reference to Exhibit 10.9 to Form 8-K dated and filed April 17, 2001)
- 4(i) Indenture dated as of November 21, 2001, between Northrop Grumman Corporation and JPMorgan Chase Bank, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K dated and filed November 21, 2001)
- 4(j) Form of Officers' Certificate dated as of November 21, 2001, setting forth the terms of the Northrop Grumman Corporation 5.25 percent Senior Notes due 2006 that were a component of Northrop Grumman Corporation's Equity Security Units (incorporated by reference to Exhibit 4.2 to Form 8-K dated and filed November 21, 2001)
- 4(k) Form of Supplemental Officers' Certificate dated as of August 16, 2004 (supplementing the Officers' Certificate dated as of November 21, 2001, relating to the Northrop Grumman Corporation 5.25 percent Senior Notes due 2006) setting forth the terms of the Northrop Grumman Corporation 4.079 percent Senior Notes due 2006\*
- 4(l) Indenture dated as of April 13, 1998, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 6.75 percent Senior Debentures due 2018 were issued (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1998, and filed June 15, 1998)
- 4(m) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.5 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)
- 4(n) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(q) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 4(o) Senior Indenture dated as of December 15, 1991, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 7.75 percent and 6.98 percent debentures due 2026 and 2036 were issued and specimens of such debentures (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1996, filed June 11, 1996)
- 4(p) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.7 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)
- 4(q) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(t) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)

**NORTHROP GRUMMAN CORPORATION**

- 4(r) Form of Exchange Security for the \$400,000,000 8 percent senior notes due 2009 of Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) (incorporated by reference to Exhibit 4.3 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 2000, filed June 9, 2000)
- 4(s) Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of May 1, 1986 (incorporated by reference to Exhibit 2 to the Form 8-A Registration Statement of TRW Inc. dated July 3, 1986)
- 4(t) First Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of August 24, 1989 (incorporated by reference to Exhibit 4(b) to Form S-3 Registration Statement No. 33-30350 of TRW Inc.)
- 4(u) Fourth Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of June 2, 1999 (incorporated by reference to Exhibit 4(e) to Form S-4 Registration Statement No. 333-83227 of TRW Inc. filed July 20, 1999)
- 4(v) Fifth Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of June 2, 1999 (incorporated by reference to Exhibit 4(f) to Form S-4 Registration Statement No. 333-83227 of TRW Inc. filed July 20, 1999)
- 10(a) Northrop Grumman 1993 Long-Term Incentive Stock Plan, as amended and restated (incorporated by reference to Exhibit 4.1 to Form S-8 Registration Statement No. 333-68003 filed November 25, 1998)
- 10(b) Northrop Corporation 1993 Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit B to the Northrop Corporation 1993 Proxy Statement filed March 30, 1993), amended as of September 21, 1994 (incorporated by reference to Exhibit 10(q) to Form 10-K for the year ended December 31, 1994, filed March 21, 1995)
- 10(c) Northrop Grumman Corporation 1995 Stock Option Plan for Non-Employee Directors, as Amended as of May 11, 2004 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2004, filed July 29, 2004)
- 10(d) 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 (incorporated by reference to Exhibit 10.42 to Amendment No. 6 to Form S-4 Registration Statement No. 333-83672 filed September 13, 2002)
  - (ii) Form of Notice of Non-Qualified Grant of Stock Options and Option Agreement (incorporated by reference to Exhibit 10.5 to Form S-4 Registration Statement No. 333-83672 filed March 4, 2002)
  - (iii) Amended form of Non-Qualified Stock Option Agreement applicable to 2004 stock options (for officers) (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2004, filed July 29, 2004)
  - (iv) Form of Agreement for 2005 Restricted Performance Stock Rights (for officers)\*
  - (v) Form of Agreement for 2005 Stock Options (for officers)\*
  - (vi) Form of letter from Northrop Grumman Corporation regarding Stock Option and RPSR Retirement Enhancement\*

**NORTHROP GRUMMAN CORPORATION**

- 10(e) Form of \$2,500,000,000 Five-Year Revolving Credit Agreement dated as of March 30, 2001, among Northrop Grumman Corporation, Northrop Grumman Systems Corporation and Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), the Lenders party thereto, The Chase Manhattan Bank and Credit Suisse First Boston, as Co-Administrative Agents, Salomon Smith Barney Inc., as Syndication Agent, and The Bank of Nova Scotia and Deutsche Banc Alex. Brown, Inc. as Co-Documentation Agents (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to Form S-4 Registration Statement No. 333-54800 filed March 27, 2001), and amended by First Amendment dated as of November 26, 2003 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2003, filed May 14, 2003) and Second Amendment dated as of January 15, 2004\*
- 10(f) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of the indenture indebtedness issued by the former Litton Industries, Inc. (incorporated by reference to Exhibit 10.10 to Form 8-K dated and filed April 17, 2001)
- 10(g) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of Northrop Grumman Systems Corporation indenture indebtedness (incorporated by reference to Exhibit 10.11 to Form 8-K dated and filed April 17, 2001)
- 10(h) Form of Guarantee dated as of March 27, 2003, by Northrop Grumman Corporation, as Guarantor, in favor of JP Morgan Chase Bank (formerly The Chase Manhattan Bank), as trustee, of certain debt securities of Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.) (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2003, filed May 14, 2003)
- 10(i) Form of Guarantee dated as of January 9, 2003, by Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.) of Northrop Grumman Systems Corporation indenture indebtedness (incorporated by reference to Exhibit 10(qq) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 10(j) Northrop Grumman Supplemental Plan 2 as amended and restated effective October 1, 2004\*
- (i) Appendix A: Northrop Supplemental Retirement Income Program for Senior Executives as amended and restated effective July 1, 2003\*
  - (ii) Appendix B: ERISA Supplemental Program 2 as amended and restated effective October 1, 2004\*
  - (iii) Appendix F: CPC Supplemental Executive Retirement Program as amended and restated effective October 1, 2004\*
  - (iv) Appendix G: Officers Supplemental Executive Retirement Program as amended and restated effective October 1, 2004\*
  - (v) Appendix H: Robert P. Iorizzo Program as amended and restated effective October 1, 2004\*
- 10(k) Northrop Grumman ERISA Supplemental Plan as amended and restated effective October 1, 2004\*
- 10(l) Northrop Grumman Corporation March 2004 Change-in-Control Severance Plan (incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
- 10(m) Northrop Grumman Corporation Non-Employee Directors Equity Participation Plan, as amended December 18, 2002 (incorporated by reference to Exhibit 10(ff) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 10(n) Special Officer Retiree Medical Plan (As Amended and Restated Effective October 1, 2003) (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)

## [Table of Contents](#)

### **NORTHROP GRUMMAN CORPORATION**

- 10(o) Northrop Grumman Deferred Compensation Plan as amended and restated effective October 1, 2004\*
- 10(p) The 2002 Incentive Compensation Plan of Northrop Grumman Corporation (incorporated by reference to Exhibit B to the Definitive Proxy Statement on Schedule 14A filed April 4, 2002)
- 10(q) Form of Indemnification Agreement between Northrop Grumman Corporation and its directors and executive officers (incorporated by reference to Exhibit 10.39 to Form S-4 Registration Statement No. 333-83672 filed March 4, 2002)
- 10(r) Employment Agreement dated February 19, 2003, between Northrop Grumman Corporation and Dr. Ronald D. Sugar (incorporated by reference to Exhibit 10(nn) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 10(s) Employment Agreement between Dr. Ronald D. Sugar and Northrop Grumman Corporation dated September 19, 2001 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2001, filed November 5, 2001)
- 10(t) Letter Agreement dated June 21, 2000, between Litton Industries, Inc. and Ronald D. Sugar (incorporated by reference to Exhibit 10.1 to Form 8-K of Litton Industries, Inc. ("LII") dated and filed June 22, 2000, as amended by Amendment dated December 21, 2000 (incorporated by reference to Exhibit 99.(e)(6) to Schedule 14D-9 of LII filed January 5, 2001) and Letter Agreement dated January 31, 2001, between Northrop Grumman Corporation and Ronald D. Sugar (incorporated by reference to Exhibit (e)(16) to Amendment No. 3 to Schedule 14D-9 of LII filed February 1, 2001)
- 10(u) Northrop Grumman Supplementary Retirement Income Plan (formerly TRW Supplementary Retirement Income Plan) amended and restated effective January 1, 2004\*
- 10(v) Form of Northrop Grumman Corporation March 2004 Special Agreement (incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
- 10(w) Employment Agreement between Charles H. Noski and Northrop Grumman Corporation dated as of October 16, 2003, including Charles H. Noski Executive Retirement Plan attached as Exhibit A, Executive Perquisite Summary attached as Exhibit B, Northrop Grumman Corporation March 2004 Special Agreement attached as Exhibit C and Release Agreement attached as Exhibit D (incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
- 10(x) Northrop Grumman 2002 Annual Incentive Plan – Incentive Compensation Plan (for Non-Section 162(m) Officers), Performance Achievement Plan, Incentive Management Achievement Plan\*
- 10(y) Northrop Grumman Savings Excess Plan as amended and restated effective October 1, 2004\*
- 10(z) Employment Agreement between Donald C. Winter and Northrop Grumman Corporation effective as of December 11, 2002\*
- 10(aa) Employment Agreement between Wesley G. Bush and Northrop Grumman Corporation dated December 12, 2002 (incorporated by reference to Exhibit 99.2 to Form 8-K dated January 14, 2005, and filed January 18, 2005)
- 10(bb) Agreement between Charles H. Noski and Northrop Grumman Corporation dated January 14, 2005 (incorporated by reference to Exhibit 99.1 to Form 8-K dated January 14, 2005, and filed January 18, 2005)
- 10(cc) Litton Industries, Inc. Restoration Plan 2 effective April 3, 2001\*
- 10(dd) Litton Industries, Inc. Restoration Plan as amended and restated effective October 1, 2004\*
- 10(ee) Litton Industries, Inc. Supplemental Executive Retirement Plan as amended and restated effective October 1, 2004\*

[Table of Contents](#)

**NORTHROP GRUMMAN CORPORATION**

10(ff)	Northrop Grumman Electronic Systems Executive Pension Plan as amended and restated effective October 1, 2004*
10(gg)	Executive Life Insurance Policy*
10(hh)	Executive Accidental Death, Dismemberment and Plegia Insurance Policy*
10(ii)	Executive Long-Term Disability Insurance Policy*
10(jj)	Corporate Owned Life Insurance Policy (provided for Dr. Ronald D. Sugar)*
10(kk)	Executive Dental Insurance Policy Group Numbers 5134 and 5135 (incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 1995, filed February 22, 1996)
10(ll)	Group Personal Excess Liability Policy*
10(mm)	Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (As amended and restated effective August 1, 2003) (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
21	Subsidiaries*
23	Consent of Independent Registered Public Accounting Firm*
24	Power of Attorney*
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 Charles H. Noski (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 Charles H. Noski 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

## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNT

(\$ in millions)

Description	Balance at Beginning of Period	Additions At Cost <sup>(1)</sup>	Changes - Add (Deduct) <sup>(2)</sup>	Balance at End of Period
Year ended December 31, 2002				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts <sup>(3)</sup>	\$ 140	\$ 221	\$ (67)	\$ 294
Year ended December 31, 2003				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts <sup>(3)</sup>	\$ 294	\$ 83	\$ (129)	\$ 248
Year ended December 31, 2004				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts	\$ 248	\$ 107	\$ (87)	\$ 268

(1) Includes reserves and allowances acquired of \$.4 million and \$72 million for the years ended December 31, 2003 and 2002, respectively.

(2) Uncollectible amounts written off, net of recoveries.

(3) Prior year amounts have been reclassified to conform to current year presentation and have been restated for discontinued operations, as appropriate.

## NORTHROP GRUMMAN CORPORATION

## Supplemental Officers' Certificate

Each of the undersigned officers of Northrop Grumman Corporation, a Delaware corporation (the "Company"), does hereby certify as follows:

1. This Supplemental Officers' Certificate supplements the terms of the Officers' Certificate, dated November 21, 2001 (the "Original Officers Certificate"), which sets forth the terms of the Company's 5.25% Senior Notes due 2006 (the "Notes"). Defined terms used but not defined in this Supplemental Officers' Certificate shall have the meanings given to such terms in the Original Officers' Certificate.
2. Each of the undersigned has read Sections 201, 301 and 303 of the Indenture, dated as of November 21, 2001 (the "Indenture") between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"), and the definitions in such Indenture relating thereto and has reviewed such other corporate documents and records relating to the matters referred to herein, and, in the opinion of the undersigned has made such examination or investigation as is necessary to enable him to express an informed opinion on the matters set forth below.
3. The Notes have been successfully remarketed pursuant to the terms of the Remarketing Agreement, dated as of July 30, 2004 (the Remarketing Agreement"), among the Company, the Remarketing Agents (as defined in the Remarketing Agreement) and JPMorgan Chase Bank, as Purchase Contract Agent. A successful remarketing having occurred, the undersigned Authorized Officers of the Company, acting pursuant to the authority granted to them in the resolutions duly adopted by the Board of Directors of the Company on October 22, 2001, a Special Committee of the Board of Directors on November 15, 2001, and a Special Committee of the Board of Directors on August 11, 2004, has determined to establish a new form of 5.25% Senior Note due 2006, that reflects the manner in which and the rate at which interest accrues following the remarketing, which new form is attached hereto as Annex A and is hereby approved.
4. As the interest rate on the Notes has been reset to the annual rate of 4.079%, the title of the Company's 5.25% Senior Notes due 2006 is hereby changed to the "4.079% Senior Notes due 2006".
5. All conditions precedent provided for in the Indenture to the establishment, authentication and delivery of the Notes in the form authorized hereby have been complied with.

[Signature page follows]

IN WITNESS WHEREOF, each of the undersigned has executed this Supplemental Officers' Certificate as of this 16<sup>th</sup> day of August, 2004.

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Name: James L. Sanford  
Title: Corporate Vice President and Treasurer

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Name: John H. Mullan  
Title: Corporate Vice President and Secretary

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Issuer (as defined below) or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE TRANSFERRED TO, OR REGISTERED OR EXCHANGED IN WHOLE OR IN PART FOR, A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

**NORTHROP GRUMMAN CORPORATION**

4.079% Senior Note due 2006

Number:

CUSIP NO.: 666807AZ5

Northrop Grumman Corporation, a Delaware corporation (the “Issuer”, which term includes any successor corporation under the Indenture hereafter referred to), for value received, hereby promises to pay to Cede & Co. or registered assigns, the principal sum of \$ ( ) on November 16, 2006, and to pay interest thereon at 4.079% per annum, from August 16, 2004, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on February 16, May 16, August 16 and November 16 of each year, commencing November 16, 2004. The amount of interest payable for any period will be computed (1) for any full quarterly period on the basis of a 360-day year of twelve 30-day months and (2) for any period shorter than a full quarterly period, on the basis of a 30-day month and (3) for periods of less than a month, on the basis of the actual number of days elapsed per 30-day month. Notwithstanding Section 113 of the Indenture, in the event that any date on which interest is payable on this Note is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if the Business Day is in the next succeeding calendar year, then the payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such Interest Payment Date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Note (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the Regular Record Date for such interest installment which in the case of a Global Security or a Pledged Note shall be the Business Day next preceding such Interest Payment Date and in the case of all other Notes, shall be the fifteenth calendar day preceding such Interest Payment Date. Any such interest installment not punctually paid or duly provided for on any Interest Payment Date shall forthwith cease to be payable to the registered Holders on such Regular Record Date and may be paid to the Person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date to be fixed by the Trustee for the payment of such Defaulted Interest, notice whereof shall be given to the registered Holders of this series of Notes not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes may be listed, and upon such notice as may be required by such exchange all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Note shall be payable at the office or agency of the Issuer maintained for that purpose in the Borough of Manhattan, the City of New York, in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check

mailed to the Person entitled thereto at such address as shall appear in the Security Register or by wire transfer to an account in the United States designated to the Trustee by a prior written notice by such Person delivered at least five Business Days prior to the applicable Interest Payment Date.

Reference is made to the further provisions of this Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been executed by the Trustee under the Indenture referred to on the reverse hereof by manual signature.

[Signature page follows]

IN WITNESS WHEREOF, Northrop Grumman Corporation has caused this instrument to be signed by one of its duly authorized officers and has caused a facsimile of its corporate seal to be affixed hereunto or imprinted hereon.

NORTHROP GRUMMAN CORPORATION

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

James Sanford  
Corporate Vice President and Treasurer

ATTEST:

\_\_\_\_\_

John H. Mullan  
Corporate Vice President and Secretary

**CERTIFICATE OF AUTHENTICATION**

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated: August 16, 2004

JPMORGAN CHASE BANK, as Trustee

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

Authorized Officer

**(REVERSE OF NOTE)**  
**NORTHROP GRUMMAN CORPORATION**

**4.079% Senior Note due 2006**

This Note is one of a duly authorized issue of debentures, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the "Securities") of the series hereinafter specified, all issued or to be issued under and pursuant to an Indenture dated as of November 21, 2001 (herein called the "Indenture"), duly executed and delivered by the Issuer to JPMorgan Chase Bank, as Trustee (herein called the "Trustee"), as supplemented by Officers' Certificates dated November 21, 2001 and August 16, 2004, to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any) and may otherwise vary as provided in the Indenture.

This Note is one of a series designated as the 4.079% Senior Notes due 2006 (the "Notes") of the Issuer. The Notes are initially limited in aggregate principal amount to \$690,000,000; provided, however, that the Issuer may, without the consent of the Holders of the Notes, create and issue additional notes ranking equally with the Notes and otherwise similar in all respects so that such further notes would be consolidated and form a single series of the Notes.

Except as otherwise provided in the Indenture, this Note will be issued in global form only registered in the name of The Depository Trust Company ("DTC") or its nominee. This Note will not be issued in definitive form, except as otherwise provided in the Indenture, and ownership of this Note shall be maintained in book-entry form by the DTC for the accounts of participating organizations of the DTC.

In case an Event of Default with respect to the Notes shall have occurred and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note in the manner, at the respective times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable only in registered form without coupons in denominations of \$100 and any integral multiple thereof at the office or agency of the Issuer in the Borough of Manhattan, The City of New York, or at such other locations as the Issuer may from time to time designate, and in the manner and subject to the limitations provided in the Indenture, but without the payment of any service charge, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes shall be redeemable in whole, but not in part, at any time at the option of the Issuer if a Tax Event occurs and is continuing (a "Redemption Date"), at a redemption price equal to the Redemption Amount, plus accrued and unpaid interest, if any, to the Redemption Date. The Redemption Amount will be calculated assuming a 360-day year consisting of twelve 30-day months. Notwithstanding the foregoing, installments of interest on Notes that are due and payable on an Interest Payment Date falling on or prior to the Redemption Date will be payable to the Holders of such Notes registered as such at the close of business on the relevant record date according to the terms and the provisions of the Indenture.

The Redemption Price shall be paid to or on behalf of each Holder of the Notes by the Issuer, no later than 12:00 noon, New York City time, on the Redemption Date, by check or wire transfer in immediately available funds, at such place and to such account as may be designated by each such Holder.

"Redemption Amount" means the Stated Amount of the Notes.

"Tax Event" means the receipt by the Issuer of an opinion of a nationally recognized tax counsel experienced in such matters to the effect that there is more than an insubstantial risk that interest payable by the Issuer on the Notes on the next interest payment date would not be deductible, in whole or in part, by the Issuer for United States federal income tax purposes as a result of any amendment to, change in, or announced proposed change in, the laws, or any regulations thereunder, of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, any amendment to or change in an official interpretation or application of any such law or regulations by any legislative body, court, governmental agency or regulatory authority or any official interpretation or pronouncement that provides for a position with respect to any such laws or regulations that differs from the generally accepted position as of the date of the Purchase Contract Agreement which amendment, change, or proposed change is effective or which interpretation or pronouncement is announced on or after such date.

Notice of any redemption must be given at least 30 days but not more than 60 days before the Redemption Date to each Holder of Notes to be redeemed at its registered address. If money sufficient to pay the Redemption Amount (or portion thereof) to be redeemed on the Redemption Date is deposited on or before the Redemption Date and the other conditions set forth in the Indenture are satisfied, then on and after such date, interest will cease to accrue on the Notes called for redemption.

The Notes are not entitled to any sinking fund.

Upon due presentment for registration of transfer of this Note at the office or agency of the Issuer in the Borough of Manhattan, The City of New York, or at such other locations as the Issuer may from time to time designate, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange therefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith. In the event any Notes are called for redemption, neither the Issuer nor the Trustee will be required to register the transfer of or exchange the Notes to be redeemed.

Prior to due presentment of this Note for registration of transfer, the Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Issuer, the Trustee nor any such agent shall be affected by notice to the contrary.



No recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer or director, as such, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance hereof and as part of the consideration of the issue hereof.

This Note shall for all purposes be governed by, and construed in accordance with, the laws of the State of New York.

Terms used herein which are defined in the Indenture, the Purchase Contract Agreement dated as of November 21, 2001 between the Issuer and JPMorgan Chase Bank, as Purchase Contract Agent (the "Purchase Contract Agreement"), and the Pledge Agreement dated as of November 21, 2001 among the Company, the Purchase Contract Agent and The Bank of New York, as Collateral Agent, Custodial Agent and Securities Intermediary (the "Pledge Agreement"), shall have the respective meanings assigned thereto in the Indenture, the Purchase Contract Agreement or the Pledge Agreement.

**ASSIGNMENT**

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto:

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(Please insert social security or other identifying number of assignee)

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(Please insert social security or other identifying number of assignee)

the within Note and all rights thereunder, hereby irrevocably constituting and appointing such person attorney to transfer such Note on the books of the Issuer, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Note in every particular without alteration or enlargement or any change whatsoever.

Signature Guarantee

**NORTHROP GRUMMAN CORPORATION  
TERMS AND CONDITIONS APPLICABLE TO  
2005 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 2005. If you were granted an RPSR award by the Company in 2005, 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 reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply to your RPSR award if referenced in your Grant Letter and/or on the Stock Plan System with respect to your 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, 2006 to December 31, 2008 (the “Performance Period”). The target number of RPSRs subject to your award are 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 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 December 31 immediately preceding the start of the Performance Period, the Grantee is either the Chief Executive Officer of the Company, is otherwise a “Covered Employee” (as defined for purposes of Section 162(m) of the Code) of the Company, or is one of the next three highest compensated employees (as determined by proxy convention) with respect to the Company.

**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 (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 the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will normally be paid by March 30 following the end of the Performance Period.

**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 (subject to tax withholding) 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 that would otherwise be paid if the Grantee had remained employed by the Company or a subsidiary through the entire Performance Period 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.

In the case of Retirement, 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. 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 normally be made by the end of the third month following the month of the Grantee's death or Disability. The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

In the event of the Grantee's death subsequent to a termination of employment due to Retirement or Disability, the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement.

**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 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 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 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: (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. 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 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, 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.

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 no later than 60 days after the later of the Change in Control of the Company or the termination of the Grantee's employment.

**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. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting or exercisability 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 prorated payment 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 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 no later than 60 days after the Change in Control.

## **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 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 RPSRs or related Dividend Equivalents.

**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 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"** 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.

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

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

“**Parent**” is used as defined in the Plan.

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

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

- (i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the



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

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

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

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

**NORTHROP GRUMMAN CORPORATION**  
**TERMS AND CONDITIONS APPLICABLE TO 2005 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 2005. If you were granted a stock option by the Company in 2005, 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 (¼) 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 (10<sup>th</sup>) anniversary of the Grant Date (the “Expiration Date”). The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

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

**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 Continuation 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

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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 LETTERHEAD]

[DATE]

[NAME]

[ADDRESS]

Re: *Stock Option and RPSR Retirement Enhancement*

Dear [NAME]:

We are pleased to announce an enhanced stock option and RPSR retirement benefit for officers whose mandatory retirement date will occur before they have attained 10 years of service with the company. The terms of the enhancement are outlined below.

**Retirement Provisions in General.** The company's stock option and RPSR grants offer more favorable termination of employment provisions to those employees who retire upon or after attaining age 55 with at least 10 years of service to the company. The provisions of the awards generally provide that, in the event of such a retirement, RPSRs vest on a pro-rated basis, the next installment of any unvested stock option vests, and vested stock options remain exercisable until the later of the fifth anniversary of the retirement date or the expiration of the options. The special retirement provisions generally apply with respect to a particular award only if the employee's retirement date is at least six months after the date of grant of the award (otherwise, the normal termination of employment rules apply with respect to that grant).

**Enhanced Retirement Benefit.** Over the past few years, the company has had several strategic hires in its officer group with many of these individuals having long careers in the military or elsewhere. Because these individuals joined Northrop Grumman late in their careers and the company maintains a mandatory retirement policy for officers, these executives are precluded from achieving the 10 years of service necessary to receive any form of retirement treatment with respect to their stock options and RPSRs. To provide additional retention incentives, and also to recognize the past service of these executives, the Board of Directors approved a change in the terms of the company's stock option and RPSR grants. Under the new retirement provisions, if you are subject to the company's mandatory retirement policy for officers and you retire at the mandatory retirement age under that policy but do not have at least 10 years of service as of your retirement date, you will be covered by the retirement provisions of your stock options and RPSRs as though you retired at or after age 55 with at least 10 years of service.

Please note that the six-month minimum service rule continues to apply. That is, in order for the retirement enhancement to apply with respect to a particular award, your retirement date must be at least six months after the date of grant of that award (otherwise, the normal termination of employment rules apply).

The enhanced benefit will be included in the Terms and Conditions applicable to any new stock option and RPSR grants that you receive. This letter confirms that the enhancement will also apply with respect to any Northrop Grumman stock options and RPSRs granted to you in the past to the extent that you still hold those grants. Please call [ ] at [ ] if you have any questions.

Sincerely,

[Name, Title]

SECOND AMENDMENT dated as of January 15, 2004 (this "Amendment"), to the Five-Year Revolving Credit Agreement dated as of March 30, 2001, as heretofore amended (the "Credit Agreement"), among NORTHROP GRUMMAN CORPORATION, a Delaware corporation formerly known as NNG, Inc. (the "Company"); NORTHROP GRUMMAN SYSTEMS CORPORATION ("Northrop Operating" and, together with the Company, the "Borrowers"), a Delaware corporation formerly known as Northrop Grumman Corporation and the successor by merger to LITTON INDUSTRIES, INC.; the LENDERS (as defined in Article 1 of the Credit Agreement), JPMORGAN CHASE BANK and CREDIT SUISSE FIRST BOSTON, as Co-Administrative Agents, JPMORGAN CHASE BANK, as Payment Agent, SALOMON SMITH BARNEY INC., as Syndication Agent, and THE BANK OF NOVA SCOTIA and DEUTSCHE BANK SECURITIES INC. (formerly known as Deutsche Banc Alex. Brown Inc.), as Co-Documentation Agents.

A. Pursuant to the Credit Agreement, the Lenders have extended, and have agreed to extend, credit to the Borrowers.

B. The Company announced on August 20, 2003, a share repurchase program providing for the acquisition of common shares of the Company for cash consideration not to exceed (a) \$200,000,000 in the aggregate during calendar year 2003 and (b) \$500,000,000 in the aggregate during calendar year 2004. The Company may in the future announce additional share repurchase programs.

C. In connection with the foregoing, the Borrowers have requested that the Lenders agree to amend certain provisions of the Credit Agreement as provided herein. The Lenders whose signatures appear below, constituting the Required Lenders, are willing, on the terms and subject to the conditions set forth herein, so to amend the Credit Agreement.

D. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Credit Agreement as amended hereby.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. *Amendments.* (a) The definition of "Fixed Charge Coverage Ratio" in Section 1.01 of the Credit Agreement is hereby amended to read as follows:

"*Fixed Charge Coverage Ratio*" means, at any Fiscal Date, the ratio of (a) the sum of (i) Consolidated EBITDA for the period of four consecutive fiscal quarters of the Company ending on such date minus (ii) Capital Expenditures during such period to (b) the sum of (i) Interest Expense for such period plus (ii) Restricted Payments (other than Excluded Restricted Payments) made by the Company or, prior to the Northrop Merger, by Northrop Operating during such period.

(b) The following new definitions are hereby inserted in Section 1.01 in their appropriate alphabetical positions:

"*Excluded Restricted Payments*" means cash Restricted Payments not greater than (a) \$200,000,000 in the aggregate during calendar year 2003 or (b) \$500,000,000 in the aggregate during any calendar year thereafter, in each case to acquire shares of the Company's common stock pursuant to Stock Repurchase Programs.

"*Stock Repurchase Programs*" means the stock repurchase program announced by the Company on August 20, 2003, and stock repurchase programs that may in the future be announced by the Company, in each case pursuant to which the Company may acquire common shares of the Company for cash consideration.

(c) The definition of "Consolidated Net Income available for Restricted Payments" is hereby amended by inserting in clause (ii)(B) thereof, immediately after the words "redemption, purchase or other acquisition of any shares of its stock" the words "(other than any such redemption, purchase or other acquisition constituting an Excluded Restricted Payment)".

(d) Section 6.01 of the Credit Agreement is hereby amended by inserting in clause (a) thereof, immediately after the words "any such Restricted Payment" the words "(other than any Excluded Restricted Payment)".

SECTION 2. *Representations and Warranties.* To induce the Lenders to enter into this Amendment, the Borrowers represent and warrant to such parties that (a) the representations and warranties set forth in Article III of the Credit Agreement are true and correct in all material respects on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date; and (b) no Default or Event of Default has occurred and is continuing.

SECTION 3. *Conditions to Effectiveness.* The amendments provided for in Section 1 shall become effective on the date (the "*Amendment Effective Date*") on which the Payment Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of the Borrowers and the Required Lenders.

SECTION 4. *Effect of Amendment.* Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders, the Co-Administrative Agents, the Syndication Agent or the Co-Documentation Agents under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances. This Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement, as modified hereby. This Amendment shall constitute a "Loan Document" for all purposes of the Credit Agreement and the other Loan Documents.

SECTION 5. *Counterparts.* This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile transmission shall be as effective as delivery of a manually executed counterpart hereof.

SECTION 6. *Applicable Law.* THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. *Expenses.* The Borrower agrees to reimburse the Payment Agent for all out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Co-Administrative Agents.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their duly authorized officers, all as of the date and year first above written.

NORTHROP GRUMMAN CORPORATION

by /s/ Mark A. Rabinowitz  
\_\_\_\_\_  
Name: Mark A. Rabinowitz  
Title: Assistant Treasurer & Director,  
Banking and Capital Markets

NORTHROP GRUMMAN SYSTEMS CORPORATION

by /s/ Mark A. Rabinowitz  
\_\_\_\_\_  
Name: Mark A. Rabinowitz  
Title: Assistant Treasurer & Director,  
Banking and Capital Markets

JPMORGAN CHASE BANK,  
INDIVIDUALLY AND AS CO-ADMINISTRATIVE  
AGENT AND PAYMENT AGENT

by /s/ Richard C. Smith  
\_\_\_\_\_  
Name: Richard C. Smith  
Title: Vice President

CREDIT SUISSE FIRST BOSTON,  
INDIVIDUALLY AND AS  
CO-ADMINISTRATIVE AGENT

by /s/ Jay Chall

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Name: Jay Chall  
Title: Director

/s/ Jennifer A. Pieza

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Name: Jennifer A. Pieza  
Title: Associate

BANCO ESPIRITO SANTO, S.A.

by /s/ Andrew M. Orsen

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Name: Andrew M. Orsen  
Title: Vice President

/s/ Leon Stark

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Name: Leon Stark  
Title: Senior Vice President

BANK HAPOALIM B.M

by /s/ Marc Bosc

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Name: Marc Bosc  
Title: Vice President

/s/ Lenroy Hackett

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Name: Lenroy Hackett  
Title: Vice President

THE BANK OF NEW YORK

by /s/ Robert Besser

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Name: Robert Besser  
Title: Vice President

THE BANK OF NOVA SCOTIA

by /s/ Maarten Van Otterloo

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Name: Maarten Van Otterloo  
Title: Managing Director

BANK OF TOKYO-MITSUBISHI TRUST COMPANY

by /s/ Christian Giordano

---

Name: Christian Giordano  
Title: Vice President

BNP PARIBAS

by /s/ James F. McCann

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Name: James F. McCann  
Title: Director

/s/ Hamed Farhadi

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Name: Hamed Farhadi  
Title: Vice President

CITICORP USA, INC.

by /s/ Hans Lin

---

Name: Hans Lin  
Title: Vice President

COMMERZBANK AG, NEW YORK AND GRAND  
CAYMAN BRANCHES

by /s/ Christian Jagenberg

---

Name: Christian Jagenberg  
Title: SVP and Manager

/s/ Yangling J. Si

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Name: Yangling J. Si  
Title: Assistant Vice President

DEUTSCHE BANK AG NEW YORK BRANCH AND/OR  
CAYMAN ISLANDS BRANCH

by /s/ Oliver Schwartz

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Name: Oliver Schwartz  
Title: Vice President

/s/ Dr. Michael Dietz

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Name: Dr. Michael Dietz  
Title: Director

KEY BANK NATIONAL ASSOCIATION

by /s/ James Teichman

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Name: James Teichman  
Title: Portfolio Manager

LLOYDS TSB BANK PLC

by /s/ Richard H. Heath

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Name: Richard H. Heath  
Title: Vice President

/s/ Lisa Maguire

---

Name: Lisa Maguire  
Title: Assistant Vice President



MELLON BANK, N.A.

by /s/ Lawrence C. Ivey

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Name: Lawrence C. Ivey  
Title: First Vice President

MIZUHO CORPORATE BANK, LTD.

by /s/ Bertram H. Tang

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Name: Bertram H. Tang  
Title: Vice President and Team Leader

THE ROYAL BANK OF SCOTLAND PLC

by /s/ Alan Doyle

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Name: Alan Doyle  
Title: Relationship Manager

SCOTIABANK INC.

by /s/ William E. Zarrett

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Name: William E. Zarrett  
Title: Managing Director

SOCIETE GENERALE

by /s/ Eric E.O. Siebert Jr.

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Name: Eric E.O. Siebert Jr.  
Title: Managing Director

SUMITOMO MITSUI BANKING CORP.

by /s/ Al Galluzzo

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Name: Al Galluzzo  
Title: Senior Vice President

UFJ BANK LIMITED

by /s/ Toshiko Boyd

---

Name: Toshiko Boyd  
Title: Vice President

UNION BANK OF CALIFORNIA, N.A.

by /s/ Hillary Savoie

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Name: Hillary Savoie  
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

by /s/ Robert G. McGill Jr.

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Name: Robert G. McGill Jr.  
Title: Vice President

WELLS FARGO BANK, N.A.

by /s/ Ling Li

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Name: Ling Li  
Title: Vice President

NORTHROP GRUMMAN

SUPPLEMENTAL PLAN 2

(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

ARTICLE I	Definitions	1
1.01	Affiliated Companies	1
1.02	Board of Directors	1
1.03	CIC Plans	1
1.04	Code	1
1.05	Company	1
1.06	Deferred Compensation Plan	1
1.07	ERISA	1
1.08	Participant	1
1.09	Pension Plan	1
1.10	Plan	2
1.11	Program	2
1.12	Qualified Plan	2
1.13	Termination of Employment	2
ARTICLE II	General Provisions	3
2.01	In General	3
2.02	Treatment of 2000 Ad Hoc Increases for Retirees	3
2.03	Forms and Times of Benefit Payments	3
2.04	Beneficiaries and Spouses	4
2.05	Amendment and Plan Termination	4
2.06	Not an Employment Agreement	5
2.07	Assignment of Benefits	5
2.08	Nonduplication of Benefits	6
2.09	Funding	6
2.10	Construction	6
2.11	Governing Law	7
2.12	Actions by Company	7
2.13	Plan Representatives	7
2.14	Number	7
ARTICLE III	Lump Sum Election	8
3.01	In General	8
3.02	Election	8
3.03	Lump Sum—Retirement Eligible	9
3.04	Lump Sum—Not Retirement Eligible	10
3.05	Lump Sums with CIC Severance Plan Election	10
3.06	Calculation of Lump Sum	11
3.07	Spousal consent	12

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Note: All Appendices are saved as separate documents.  
Confidential documents may be requested from Benefits Strategy & Design.

- APPENDIX A Northrop Supplemental Retirement Income Program For Senior Executives
- APPENDIX B ERISA Supplemental Program 2
- APPENDIX C Arthur F. Dauer Program (Confidential)
- APPENDIX D Nelson Gibbs, Jr. Program (Confidential)
- APPENDIX E Oliver Boileau Program (Confidential)
- APPENDIX F CPC Supplemental Executive Retirement Program
- APPENDIX G Officers Supplemental Executive Retirement Program
- APPENDIX H Robert P. Iorizzo Program

The Northrop Grumman Supplemental Plan 2 (“the Plan”) is hereby amended and restated effective as of October 1, 2004. The restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

The Plan was last restated effective July 1, 2003. Subsequently, the Plan was amended in May 2004 to revise the definition of “Pension Plan.”

## ARTICLE I

### Definitions

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

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 1.02 Board of Directors. The Board of Directors of the Company.
- 1.03 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
- 1.04 Code. The Internal Revenue Code of 1986, as amended.
- 1.05 Company. Northrop Grumman Corporation.
- 1.06 Deferred Compensation Plan. The Northrop Grumman Deferred Compensation Plan and the Northrop Grumman Savings Excess Plan.
- 1.07 ERISA. The Employee Retirement Income Security Act of 1974, as amended.
- 1.08 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program.
- 1.09 Pension Plan.
  - (a) The Northrop Grumman Pension Plan (subject to the special effective dates noted below for the following merged plans)
    - The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)

- The Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan (effective as of July 1, 2000)
  - The Grumman Pension Plan (effective as of July 1, 2003)
- (b) The Northrop Grumman Electronic Systems – Space Division Consolidated Pension Plan (effective as of October 22, 2001)
- (c) The Northrop Grumman Norden Systems Employee Retirement Plan (effective July 1, 2003)
- 1.10 Plan. The Northrop Grumman Supplemental Plan 2.
- 1.11 Program. One of the eligibility and benefit structures described in the Appendices.
- 1.12 Qualified Plan. The Northrop Grumman Pension Plan and Cash Balance Plans (as defined under the Northrop Grumman Pension Plan).
- 1.13 Termination of Employment. Complete termination of employment with the Affiliated Companies.
- (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
  - (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.

ARTICLE II

General Provisions

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



- 2.04 Beneficiaries and Spouses. If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.
- (a) If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
  - (b) With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant's spouse will be the spouse as determined under the underlying tax-qualified plan. Otherwise, the Participant's spouse will be determined by the Company in its sole discretion.
- 2.05 Amendment and Plan Termination. The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part.
- (a) Except as provided in (f) and Section 2.09, no amendment, suspension or termination of the Plan may, without the consent of a Participant, affect the Participant's right or the right of the surviving spouse to receive benefits in accordance with this Plan as in effect on the date the employee becomes a Participant.
  - (b) The Participant's rights to benefits following any amendment which are preserved by (a) will be determined as if he or she terminated employment immediately prior to the adoption of the amendment (or its effective date, if later). The determination in the preceding sentence will be based on the relevant factors at that time, such as the Participant's compensation history, service credits and Code limitations on benefits.
  - (c) In the case of the Program set forth in Appendix B, however, the determination in (b) will be adjusted downward to take into account any post-amendment increases in benefits provided by the Company's tax-qualified retirement and savings plans, to the extent such benefits are also a factor in the benefits due under this Plan. To the extent any amendment to the Pension Plans increases benefits in plan years for which a Participant already has received his or her benefits under the Plan, the Plan may offset the Participant's future benefits or take other reasonable steps solely to correct any duplicative payment of benefits.

Example 1: Assume an amendment eliminates all future benefits under a particular Program. Assume that the Program provides a level of benefits reduced by benefits paid under a tax-qualified plan. Assume further that as of the date of the amendment, a Participant's level of benefits under the Plan is \$150/month less a tax-qualified plan benefit of \$100/month, leaving the Participant a net benefit of \$50. Under paragraph (b), the Participant's right to that \$50 would be preserved.

Example 2: Same as Example 1, but assume that later the Participant's tax-qualified plan benefit increases to \$120/month. Under the provisions of this paragraph (c), for future months, the Participant would only be entitled to \$30 under this Plan.

Example 3: Same as Example 2, but assume that the Participant's tax-qualified plan benefit increases to \$120/month in a plan year for which the Participant already received his benefit of \$50/month from the Plan. Under the provisions of this paragraph (c), the Participant would have received the same benefits of \$20/month (or its actuarial equivalent) under the tax-qualified plans and under this Plan. To correct this, the Plan could either obtain reimbursement from the tax-qualified plan of the amounts previously paid under this Plan but which are now an obligation of the tax-qualified plan or temporarily decrease the Participant's benefits in future months by \$20 until the full amount of excess benefits is offset.

- (d) In addition, the determination in (b) will also be adjusted to take into account post-amendment decreases in a Participant's compensation.
- (e) The rights of surviving spouses claiming benefits under the Plan with respect to a Participant will be preserved and limited in the same fashion as a Participant's benefits.
- (f) The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, amend or eliminate any of the provisions of the Plan with respect to lump sum distributions at any time, including the calculation factors of Section 3.06. This applies whether or not a Participant has already made a lump sum election.
- (g) The Company may, in its sole discretion, seek reimbursement from the Company's tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled to or became entitled to under the tax-qualified plans.

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

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

- 2.08 **Nonduplication of Benefits.** This Section applies if, despite Section 2.07, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.
- (a) Actuarial value will be determined using the factors and methodology described in Section 3.06 below (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.
  - (b) In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.
- 2.09 **Funding.** Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.
- (a) Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.
  - (b) To the extent the Company gives Participants and beneficiaries enforceable rights to funding, those rights must be determined under the terms of other documents. No such rights exist under this Plan document and the restrictions on amendments in this Plan document will in no case apply to restrict the Company's right to cease or alter the terms of any funding.
- 2.10 **Construction.** The Company shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Company's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or beneficiary. The Company shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

- 2.11 Governing Law. This Plan shall be governed by the law of the State of California, except to the extent superseded by federal law.
- 2.12 Actions by Company. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board of Directors may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.
- 2.13 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.
- 2.14 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

ARTICLE III

Lump Sum Election

- 3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.05, this Article does not apply to employees in cases where benefits under a particular Program do not exceed \$10,000 and so are automatically payable in lump sum form under Section 2.02. This Article will not apply if a particular Program so provides.
- 3.02 Election. Participants may elect to have their benefits paid in the form of a single lump sum under this Section.
- (a) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
    - (1) Benefits payable to the Participant during his or her lifetime, and
    - (2) Survivor benefits (if any) payable to the Participant's beneficiary, including preretirement death benefits (if any) payable to the Participant's spouse.
  - (b) An election does not become effective until the earlier of:
    - (1) the Participant's Termination of Employment, or
    - (2) the Participant's death.
  - (c) Before the election becomes effective, it may be revoked.
  - (d) If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.
  - (e) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
  - (f) After a Participant has a Termination of Employment, no election can be made.
  - (g) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.
  - (h) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

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

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

- (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
  - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
  - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
  - (3) the spouse survives to the first of the month following the date of the Participant's death.
- 3.04 Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
  - (a) No monthly benefit payments will be made.
  - (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
  - (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
    - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
    - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
    - (3) the spouse survives to the first of the month following the date of the Participant's death.
  - (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.
- 3.05 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.06 Calculation of Lump Sum.

- (a) The factors to be used in calculating the lump sum are as follows:
- (1) Interest: Whichever of the following two rates that produces the smaller lump sum:
    - (A) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
    - (B) the applicable interest rate under section 417(e)(3) of the Code that would be used to calculate a lump sum value for the benefit under the Pension Plans.
  - (2) Mortality: the applicable mortality table under section 417(e)(3) of the Code, which would be used to calculate a lump sum value for the benefit under the Pension Plans.
  - (3) Increase in Section 415 Limit: 4% per year.
  - (4) Age: Age rounded to the nearest month on the date the lump sum is payable.
  - (5) Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.
- (b) The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.
- (1) For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.
  - (2) If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.
  - (3) If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.
  - (4) If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.



- (5) In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.
- (c) In the case of a lump-sum under Section 3.05 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.06 are not used.
- 3.07 Spousal consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley  
J. Michael Hateley  
Corporate Vice President and Chief Human  
Resources and Administrative Officer

APPENDIX A  
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

Northrop Supplemental Retirement Income Program For Senior Executives

(Amended and Restated Effective as of October 1, 2004)

Appendix A to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to clarify that the Appendix is part of the Northrop Grumman Supplemental Plan 2 and is not intended to make substantive changes to the Appendix.

- A.01 Purpose. The purpose of this Program is to provide minimum pension and death benefits to senior executives participating in the Pension Plans who have only had a short period of service with the Company prior to retirement.
- A.02 Eligibility. Officers of the Company may become Participants under this Program only if they are designated as such by the Board of Directors.
- (a) Effective as of April 1, 2003, Kent Kresa ceased being an active Participant under this Program and entered pay-status.
- (b) Effective as of January 1, 2002, the Board of Directors has determined that Dr. Ronald D. Sugar (the "Executive") will be eligible to participate in this Program.
- (c) There are no other Participants in this Program as of July 1, 2003.
- A.03 Retirement Benefit. A Participant is eligible for the benefit under Section A.04 upon voluntary or involuntary Termination of Employment with the Company (other than by death) at or after age 55 with 10 or more years of Vesting Service.
- A.04 Amount of Retirement Benefit. The amount of the retirement benefit under this Appendix is the amount in (a), reduced by (b), where:
- (a) is the greater of
- (1) the amount of the Participant's retirement income under the Pension Plans on a straight life annuity basis, computed:
- (A) without regard to the limitations on benefits and the cap on counted compensation imposed by Code sections 415 and 401(a)(17), and
- (B) using Eligible Pay as defined in subsection (c) below, or

- (2) the amount of a straight life annuity with annual payments equal to the participant's Final Average Salary (as defined below) in effect on the date of his or her Termination of Employment multiplied by the appropriate percentage shown in the following schedule:

<u>Age at Termination Date*</u>	<u>Percentage of Final Average Salary at Termination Date**</u>
55	30%
56	34%
57	38%
58	42%
59	46%
60	50%
61	52%
62	54%
63	56%
64	58%
65 and over	60%

(b) is the sum of (1) and (2) below, where:

- (1) is the amount of the Participant's retirement income payable to the Participant, including all early retirement subsidies, supplements, and other such benefits, under the following plans and programs:
- (A) the Qualified Plans, including any predecessor plans, taking into account the limitations on benefits and the cap on counted compensation imposed by Code sections 415 and 401(a)(17);
  - (B) the CPC Supplemental Executive Retirement Program set forth in Appendix F;
  - (C) the Northrop Grumman ERISA Supplemental Plan;
  - (D) the ERISA Supplemental Program 2 set forth in Appendix B; and
  - (E) any defined benefit retirement plans, programs, and arrangements (whether qualified or nonqualified) maintained by TRW Inc. or Litton Industries, Inc., their predecessors, or any affiliates of either in which the Executive participated prior to the commencement of his employment with the Company; and

\* Calculated to years and completed months on the Termination Date.

\*\* The applicable percentage shall be straight line interpolation depending on the Participant's age on his termination date. The percentage thus determined shall be rounded to the nearest hundredth. For example, if a Participant terminates when he is 55 years and 8 months old, the applicable percentage is  $30.00\% + 2.67\% = 32.67\%$ .

- (2) is an annual benefit of \$124,788 which represents a portion of the retirement benefits previously received by the Executive from certain plans previously maintained by Litton Industries, Inc.
- (c) Final Average Salary.
  - (1) Final Average Salary for any Plan Year is the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
  - (2) Eligible Pay will be determined under the rules of Appendix F.

A.05 Post-55 Preretirement Surviving Spouse Benefit. If a Participant dies:

- (a) after age 55;
  - (b) while credited with 10 or more years of Vesting Service;
  - (c) prior to Termination of Employment; and
  - (d) his or her spouse is entitled to a survivor annuity under the Pension Plans,
- then the Participant's spouse will be entitled to the benefit under Section A.06.

A.06 Amount of Post-55 Spouse's Benefit. The Participant's surviving spouse benefit under this Section shall be equal in value to the sum of (a) and (b), with such sum then reduced by (c) where:

- (a) is the amount of retirement income that the Participant would have received under the 100% Joint and Survivor Option under the Qualified Plan in which he or she was participating had the Participant retired on the date of death,
- (b) is the amount of the benefit under this Program, after the offset of the benefits included in Section A.04(b), the Participant would have received if he or she had retired on the date of his or her death with this 100% Joint and Survivor Option in effect, and
- (c) is the amount of the annuity benefit payable to the surviving spouse under the Qualified Plans (even if the annuity is commuted to a lump sum).

A.07 Payment of Post-55 Spouse's Benefit. The spouse's benefit described in Section A.06 will be payable commencing the first day of the month next following the Participant's date of death and shall terminate on the date of death of the surviving spouse.

A.08 Pre-55 Preretirement Surviving Spouse Benefit. If a Participant dies:

- (a) before age 55;
- (b) while credited with 10 or more years of Vesting Service; and
- (c) prior to Termination of Employment,  
then the Participant's spouse will be entitled to the benefit under Section A.09.

A.09 Amount of Pre-55 Spouse's Benefit. The Participant's surviving spouse benefit under this Section shall be equal in value to the benefit standing to the credit of the Participant under the Pension Plans as of the date of his or her death, actuarially reduced in accordance with the factors in the following table:

<u>Age of Participant at Date of Death*</u>	<u>Factor to be Applied to the Earned Benefit**</u>
55	.431
54	.399
53	.370
52	.343
51	.319
50	.297
49	.276
48	.257
47	.240
46	.223
45	.208

Any extension of the above table below age 45 shall be based on the following assumptions (i) Mortality - 1971 Towers, Perrin, Forster & Crosby Forecast Mortality Table, and (ii) Interest - 6% compounded annually.

A.10 Payment of Pre-55 Spouse's Benefit. The spouse's benefit described in Section A.09 will be payable commencing the first day of the month next following the Participant's date of death and will terminate on the date of death of the surviving spouse.

A.11 Effective Date. This Program first became effective on July 18, 1973 and will be effective as to each Participant on the date the Board of Directors takes the action designating him or her as a Participant under this Program.

A.12 Vesting Service.

- (a) In General. Vesting Service is generally determined under the Qualified Plans.

\* Calculated to years and completed months on date of death.

\*\* The applicable factor shall be determined by straight line interpolation depending on Participant's age at date of death.

- (b) Special Rule for the Executive. The Executive is deemed to have earned 5 years of Vesting Service as of January 1, 2002. For service performed after December 31, 2001, the Executive's Vesting Service is determined under the Qualified Plans.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human Resources and  
Administrative Officer

APPENDIX B  
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

ERISA Supplemental Program 2

(Amended and Restated Effective as of October 1, 2004)

Appendix B to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to clarify that the Appendix is part of the Northrop Grumman Supplemental Plan 2 and to incorporate into the Appendix previously adopted amendments to the Appendix and is not intended to make substantive changes to the Appendix.

The Appendix was last restated effective July 1, 2003. Subsequently, the Appendix was amended in May 2004 to address the transfer of certain liabilities to the Northrop Grumman Supplemental Plan 2 from (a) the Northrop Grumman Integrated Systems & Aerostructures (ISA) Sector ERISA Excess Plan, and (b) the Northrop Grumman Excess Plan for the Grumman Pension Plan.

B.01 Purpose. The purpose of the Program is:

- (a) to restore benefits lost under the Pension Plans as a result of the compensation limit in Code section 401(a)(17), or any successor provision; and
- (b) to include compensation deferred under a Deferred Compensation Plan and deferrals required in connection with participation under the Northrop Grumman Electronic Systems Executive Pension Plan.

B.02 Eligibility. An employee of the Company, other than Charles H. Noski, is eligible to receive a benefit under this Program if he or she:

- (a) retires on or after January 1, 1989;
- (b) has vested in Pension Plan benefits that are reduced because of one or both of the following:
  - (1) the Code section 401(a)(17) limit on compensation; or
  - (2) participation in a Deferred Compensation Plan.

B.03 Amount of Benefit.

- (a) The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime will equal the amounts described in (1) and (2) below.
- (1) Cash Balance Piece. Effective for periods after June 30, 2003, a Participant whose retirement benefit is determined under the terms of a Cash Balance Plan is credited under this Program with Benefit Credits (as defined under the Participant's Cash Balance Plan) he or she would have received:
- (A) but for the restrictions of Code sections 401(a)(17) or 415, as those limits are described by the applicable Cash Balance Plan; and
- (B) but for the fact the Participant made deferrals to a Deferred Compensation Plan.
- For purposes of (B), the Benefit Credits earned are credited in accordance with the terms of the Cash Balance Plan applicable to Eligible Pay in excess of the Social Security Wage Base and any compensation deferred is only treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (2) Historical and Transition Piece. Effective for periods prior to July 1, 2003 the Participant is credited with the retirement benefit, if any, that would have been payable under the terms of the Pension Plan:
- (A) but for the restrictions of Code sections 401(a)(17) or 415, as those limits are described by the applicable Pension Plan; and
- (B) but for the fact that the Participant deferred compensation under either a Deferred Compensation Plan or in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.
- For purposes of (B), any compensation deferred is only treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (b) The benefit payable under this Program will be reduced by the combined amounts of Pension Plan Benefits and the Northrop Grumman ERISA Supplemental Plan benefits attributable to the applicable Pension Plan.
- (c) Effective January 1, 2004, notwithstanding any other provision of the Program, in accordance with Section G.05, a Participant's total accrued benefits under all



plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section B.03, may not exceed 60% of his or her Final Average Salary (as defined in Section G.02(c)), reduced for early retirement using the factors in Section G.09. If this limit is exceeded, the Participant's accrued benefit under Appendix F or G, whichever is applicable, will be reduced first, and the Participant's accrued benefit under this Program will then be reduced to the extent necessary to satisfy the limit.

(d) Minimum Normal Retirement Benefits for Designated Participants.

(1) "Minimum Normal Retirement Benefits for Designated Participants" are benefits provided only in the Pension Plan appendices (i.e., benefits in excess of the benefits provided by other portions of the Pension Plans).

(A) These extra benefits are meant to partially restore benefits lost because of Code section 401(a)(17).

(B) Therefore, they are not included in the "retirement benefit" in (a), but they are included for purposes of the offset in (b).

(2) Example. An employee is initially entitled to an \$85,000 annual benefit under the Pension Plans. The employee would be entitled, but for section 401(a)(17), to a \$100,000 annual benefit under the Pension Plans, so that \$15,000 is payable under this Program. The Company then adds the minimum normal retirement benefit appendices under the Pension Plans, which are intended to pay all or a portion of the benefits previously payable by this Program under the Pension Plans instead. Assume this results in the employee being entitled to an additional \$10,000 annual benefit under the appendices to the Pension Plans, so that the Pension Plans now pay a total of \$95,000. This Program restores to the employee only the difference between \$100,000 and \$95,000, or a \$5,000 annual benefit.

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

B.04 Preretirement Surviving Spouse Benefit.

(a) Preretirement surviving spouse benefits will be payable under this Program on behalf of a Participant if such Participant's surviving spouse is eligible for benefits payable from a Pension Plan.

- (b) The benefit payable will be:
  - (1) for periods after June 30, 2003, the amount which would have been payable under the Cash Balance Plan:
    - (A) but for the restrictions of Code sections 401(a)(17) and 415 (or any successor sections), as those limits are described by the applicable Cash Balance Plan; and
    - (B) but for the fact that the Participant deferred compensation under a Deferred Compensation Plan (with Benefit Credits determined by reference to amounts exceeding the Social Security Wage Base); and
  - (2) for periods prior to July 1, 2003, the amount which would have been payable under the Pension Plan:
    - (A) but for the restrictions of Code sections 401(a)(17) and 415 (or any successor sections), as those limits are described by the applicable Pension Plan; and
    - (B) but for the fact that the Participant deferred compensation under either a Deferred Compensation Plan or in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.
- (c) For purposes of paragraph (b)(2) above, any compensation deferred will only be treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (d) The benefit payable under this Program will be reduced by the combined amounts of the Pension Plan Benefits and the Northrop Grumman Corporation ERISA Supplemental Plan benefits attributable to the applicable Pension Plan.
- (e) No benefit will be payable under this Program with respect to a spouse after the death of that spouse.

B.05 Plan Termination. No further benefits may be earned under this Program with respect to a particular Pension Plan after the termination of such Pension Plan.

B.06 Pension Plan Benefits. For purposes of this Appendix, the term "Pension Plan Benefits" generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Pension Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term "Pension Plan Benefits" shall be deemed to mean the benefits that actually would have been payable but for such other reason.

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

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

**B.07 ISA Excess Plan Participants.**

- (a) Background. Effective as of the ISA Eligibility Date, all liabilities for benefits accrued after that date under the Northrop Grumman Integrated Systems & Aerostructures (ISA) Sector ERISA Excess Plan (the "ISA Plan") are transferred to this Plan. This Section describes the treatment of those liabilities ("Transferred Liabilities") and the Participants to whom those liabilities relate ("Transferred Participants").

The "ISA Eligibility Date" is July 1, 2000.

- (b) Transferred Participants. This Section B.07 applies only to employees who: (1) were active participants in the ISA Plan as of the day before the ISA Eligibility Date; and (2) accrued a benefit under the terms of the ISA Plan on or after the ISA Eligibility Date.
- (c) Treatment of Transferred Liabilities. The Transferred Liabilities consist of any post-ISA Eligibility Date accruals under Article III of the ISA Plan. Those liabilities are treated as if they were accrued under Section B.03 of this Plan. Other provisions of this Plan govern as provided below.
- (d) Distributions. Distributions of benefits attributable to the Transferred Liabilities are generally made under Articles II and III of this Plan.
- (e) Other Provisions. The Transferred Liabilities and the Transferred Participants are fully subject to Articles I-III and Appendix B of this Plan. The amount of the Transferred Liabilities is, however, determined under Article III of the ISA Plan.

**B.08 Grumman Excess Plan Spinoff.**

- (a) Background. Effective as of the Grumman Spinoff Date, all liabilities for benefits accrued by Transferred Participants under the Northrop Grumman Excess Plan for the Grumman Pension Plan (the "Grumman Plan") were transferred to this Plan.

This Section describes the treatment of those liabilities (“Transferred Liabilities”) under this Plan.

The “Grumman Spinoff Date” is July 1, 2003.

- (b) Treatment of Transferred Liabilities. The Transferred Liabilities will generally be treated under the Plan like any other benefits under B.03.
- (c) Transferred Participants. The “Transferred Participants” are active employees who were eligible to participate in the Grumman Plan as of June 30, 2003. Grumman Plan benefits of individuals who terminated employment before July 1, 2003 remain subject to the Grumman Plan, and this Plan assumes no liabilities for those benefits.
- (d) Distributions. Distributions of amounts corresponding to the Transferred Liabilities will generally be made under Articles II and III.
- (e) Other Provisions. The Transferred Liabilities and the Transferred Participants are fully subject to Articles I-III and Appendix B.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human

Resources and Administrative Officer

APPENDIX F  
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

CPC Supplemental Executive Retirement Program

(Amended and Restated Effective as of October 1, 2004)

Appendix F to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to clarify that the Appendix is part of the Northrop Grumman Supplemental Plan 2 and to incorporate into the Appendix previously adopted amendments to the Appendix and is not intended to make substantive changes to the Appendix.

The Appendix was last restated effective July 1, 2003. Subsequently, the Appendix was amended effective January 1, 2004 to address the forms of payment available and the determination of "Eligible Pay."

F.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible elected officers of the Company's Corporate Policy Council. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

F.02 Definitions and Construction.

- (a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans and are intended to have the same meaning.
- (b) CPC Service.
  - (1) Months of CPC Service will be determined under the rules of the Qualified Plans for determining Credited Service.
  - (2) Only months of Credited Service after the commencement of a Participant's tenure on the Corporate Policy Council will be counted.
  - (3) Months of CPC Service will continue to be counted for a Participant until the earlier of (A) and (B):
    - (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code ("Successor Qualified Plan").

- (B) Cessation of the officer's membership on the Corporate Policy Council (whether because of termination of his membership or dissolution of the Council).
- (C) Examples: The following examples assume that the Participant continues to earn months of CPC Service under the Qualified Plans until termination of employment.
  - Example 1: Officer A terminates employment with the Affiliated Companies on March 31, 2004. At that time, he is still a member of the CPC. His service under this Program ceases to accrue on March 31, 2004.
  - Example 2: Officer B ceases to be a member of the CPC on December 31, 2005, though continuing to work for the Affiliated Companies after that date. His service under this Program ceases to accrue on December 31, 2005.
- (4) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, CPC Service will be determined as the Credited Service under the Participant's last Qualified Plan.
  - (A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.
  - (B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:
    - (i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or
    - (ii) the offset under Section F.04(b) below, including the early retirement factors associated with the plans included in the offset.
- (c) Eligible Pay. Subject to paragraphs (1) through (3) below, Eligible Pay will generally be determined under the rules of the Participant's supplemental benefit plan (for section 401(a)(17) purposes).
  - (1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.
    - (A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).

- (B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.
  - (C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (2) For periods during which a Participant did not participate in a supplemental benefit plan or a qualified defined benefit retirement plan, Eligible Pay will be his or her annualized base pay (determined in accordance with the Northrop Grumman Retirement Plan), plus any bonuses received.
- (A) Annualized base pay is calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).
  - (B) Annualized base pay includes compensation deferred under a deferred compensation arrangement with those deferrals treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant's Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Northrop Grumman Corporation Retirement Plans.
- (d) Final Average Salary will mean the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
  - (e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are therefore to be construed utilizing the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified.
  - (f) Benefits under this Program will be calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

- F.03 Eligibility. Eligibility for benefits under this Program will be limited to those elected officers of the Company's Corporate Policy Council, other than Charles H. Noski, designated as "Participants" by the Company's Board of Directors or Compensation and Management Development Committee. No Participant will be entitled to any benefits under this Appendix F until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section F.08.
- F.04 Benefit Amount. A Participant's total accrued benefit under this Program is his or her gross benefit under (a), reduced by (b) (as modified by (c)), and adjusted under (d). The benefit calculated under this Section F.04 will be subject to the benefit limit under Section F.05.
- (a) A Participant's gross annual benefit under this Program will equal  $3.33\% \times \text{Final Average Salary} \times \text{months of CPC Service} \div 12$ .
- (1) The benefit payable is a single, straight life annuity commencing on the Participant's Normal Retirement Date. The form of benefit and timing of commencement will be determined under Section F.06.
- (2) If a Participant's benefit is paid under this Program before his Normal Retirement Date, the gross benefit will be adjusted for early commencement in accordance with Section G.04(c).
- (b) The gross benefit under (a) above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).
- (c) For purposes of the offset adjustment in subsection (b):
- (1) The Participant's gross benefit under subsection (a) will be reduced only by the benefits accrued under the plans described in (b) for the period during which the Participant earns CPC Service.
- (A) No offset will be made for accruals earned before (or after) participation in this Program.
- (B) Offsets will be made for benefits accrued under any plan while a Participant:
- (i) is employed by the Affiliated Companies; or
- (ii) was employed by a company before it became an Affiliated Company.



(C) The offset under (b) includes any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company (“Special Agreements”).

(D) The offset under (b) does not include:

- (i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A; or
- (ii) Part II benefits under the Litton Restoration Plan and Litton Restoration Plan II.

(2) If a Participant’s benefit under this Program commences upon reaching age 65, benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions in Section F.09.

(3) If a Participant’s benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan’s terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions in Section F.09.

(d) A Participant’s benefit under this Program will be no less than the benefit that would have been accrued under Appendix G had the Participant been eligible to participate in that Program.

(1) If the net benefit calculated under Appendix G would be greater than the benefit determined in accordance with Sections F.04(a) through (c), the Participant will receive an additional amount under this Program equal to the difference between the net benefit calculated under Appendix G and the benefit calculated under Sections F.04(a) through (c).

(2) The above comparison will be made following the application of the applicable early retirement factors and offset adjustments under this Program and Appendix G.

F.05 Benefit Limit. A Participant’s total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section F.04 and all plans included in Section F.04(b), may not exceed 60% of his or her Final

Average Salary. If this limit is exceeded, the Participant's benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.

- (a) The accrued benefits a Participant has earned under the plans included in Section F.04(b) that are taken into account for purposes of this Section are not limited to those benefits accrued during the time he or she participated in this Program (as described in Section F.04(c)(1)), but instead will count all service with the Affiliated Companies.
- (b) If a participant has previously received a distribution from one of the plans included in Section F.04(b), that previously received benefit applies toward the limit in this Section.
- (c) The Participant's Final Average Salary is reduced for early retirement applying the factors in Section G.04(c).
- (d) The limit in this Section may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.

F.06 Payment of Benefits.

- (a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.
  - (1) A Participant's benefits under this Program will be paid from among the benefit forms available under the Northrop Grumman Pension Plan with respect to benefits accrued on or after July 1, 2008.
  - (2) In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 75% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.
- (b) Except as provided in subsection (c), benefits will commence as of the first day of the month following the Participant's Termination of Employment or, if later, as of the date the Participant's early retirement benefit commences under the Qualified Plans.
- (c) If a Participant has a Termination of Employment because of Disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early

commencement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).

- (d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section F.07.

F.07 Preretirement Death Benefits. If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

- (a) Amount and Form of Preretirement Death Benefit. A preretirement death benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint-and-survivor annuity calculated using the survivor annuity factors under the Northrop Grumman Pension Plan in an amount determined as follows:
  - (1) First, the Participant's gross benefit under Section F.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section F.04(a)(2) and adjusted, as necessary, in accordance with Section F.04(d);
  - (2) Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Northrop Grumman Pension Plan) to the amount determined in (1); and
  - (3) Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section F.04(b) such that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).
- (b) Timing of Preretirement Death Benefit.
  - (1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).
  - (2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.

(c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

F.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement benefits.

- (a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections F.04 or F.07 (as limited by F.05).
- (b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company's obligations under an individual arrangement, and vice-versa.
- (c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under F.05).
- (d) To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).
- (e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.
- (f) This Section does not apply to the Special Agreements.

F.09 Actuarial Assumptions: The following defined terms and actuarial assumptions will be used to the extent necessary to convert benefits to straight life annuity form commencing at the Participant's Normal Retirement Date under Sections F.04 and F.08:

Interest: Five percent (5%)

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

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

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

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human  
Resources and Administrative Officer

- 9 -

APPENDIX G  
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

Officers Supplemental Executive Retirement Program

(Amended and Restated Effective as of October 1, 2004)

Appendix G to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of October 1, 2004, except as otherwise provided. This restatement is intended solely to clarify that the Appendix is part of the Northrop Grumman Supplemental Plan 2 and to incorporate into the Appendix previously adopted amendments to the Appendix and is not intended to make substantive changes to the Appendix.

The Appendix was last restated effective July 1, 2003. Subsequently, the Appendix was amended to (a) address the eligibility of officers of the Company's Mission Systems and Space Technology Sectors, effective January 1, 2005 and (b) address the forms of payment available and the determination of "Eligible Pay," effective January 1, 2004.

G.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible officers of the Company. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

G.02 Definitions and Construction.

- (a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans, and are intended to have the same meaning.
- (b) Eligible Pay. Subject to paragraphs (1) through (3) below, Eligible Pay will generally be determined under the rules of the Participant's supplemental benefit plan (for section 401(a)(17) purposes).
  - (1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.
    - (A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).
    - (B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.

- (C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (2) Special Rules for Certain Participants.
  - (A) Former Northrop Grumman Electronic Systems Executive Pension Plan Participants. For years prior to 2002, Eligible Pay is determined by reference to the Participant's total base salary under the Northrop Grumman Electronic Systems Pension Plan plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement. No compensation of any kind paid or otherwise earned while employed by an entity prior to that entity becoming an Affiliated Company will be included in the Participant's Eligible Pay.
  - (B) Employees of Newport News Shipbuilding, Inc. For the period beginning on January 1, 1994 and ending December 31, 2003, Eligible Pay is determined by reference to the Participant's total base salary plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement.
- (3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant's Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Northrop Grumman Corporation Retirement Plans.
- (c) Final Average Salary for any Plan Year is the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years in which the Participant was an employee of an Affiliated Company and a participant in a qualified defined benefit retirement plan. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
- (d) Months of Benefit Service.
  - (1) Months of Benefit Service will be determined under the rules of the Qualified Plans for determining Credited Service.
  - (2) Months of Benefit Service will continue to be counted for a Participant until the earlier of (A) or (B):

- (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code (“Successor Qualified Plan”).
  - (B) Cessation of the Participant’s status as an elected or appointed officer of the Company.
- (3) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, Months of Benefit Service will be determined as the Credited Service in the Participant’s last Qualified Plan.
- (A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.
  - (B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:
    - (i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or
    - (ii) the offset under Section G.05 below, including the early retirement factors associated with the plans included in the offset.
- (e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are to be construed using the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified in this Program.
- (f) Benefits are calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

G.03 Eligibility. Except as otherwise provided in (1) through (5) below, eligibility for benefits under this Program is limited to elected or appointed officers of the Company, other than Charles H. Noski.

- (1) Employees of Newport News Shipbuilding Inc. will be eligible to participate under this Program effective January 1, 2004.
- (2) No employees of Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), Component Technologies, or Premier America Credit Union are eligible for benefits under this Program.



- (3) No Participant is entitled to any benefits under this Appendix G until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section G.08.
- (4) No individual who is, was, or will be eligible to participate in and receive benefits under Appendix F of the Plan (the "CPC SERP") is eligible to participate under this Program.

Effective January 1, 2005, Section G.03 is restated in its entirety to provide as follows:

G.03 Eligibility. Except as otherwise provided in (1) through (5) below, eligibility for benefits under this Program is limited to elected or appointed officers of the Company, other than Charles H. Noski.

- (1) Employees of Newport New Shipbuilding, Inc. will be eligible to participate under this Program effective January 1, 2004.
- (2) No employees of Vinnell Corporation, Component Technologies, or Premier America Credit Union are eligible for benefits under this Program.
- (3) No Participant is entitled to any benefits under this Appendix G until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section G.08.
- (4) No individual who is, was, or will be eligible to participate in and received benefits under Appendix F of the Plan (the "CPC SERP") is eligible to participate under this Program.
- (5) Notwithstanding any other provisions of this Program to the contrary, elected and appointed officers of the Company's Mission Systems and Space Technology Sectors will be eligible to participate under this Program effective as of January 1, 2005.

G.04 Benefit Amount.

- (a) A Participant's annual Normal Retirement Benefit under this Program equals the sum of (1) through (3) below, subject to the limit described in Section G.05:
  - (1)  $2.0\% \times \text{Final Average Salary} \times \text{Months of Benefit Service up to 120 months} \div 12$
  - (2)  $1.5\% \times \text{Final Average Salary} \times \text{Months of Benefit Service in excess of 120 months up to 240 months} \div 12$
  - (3)  $1.0\% \times \text{Final Average Salary} \times \text{Months of Benefit Service in excess of 240 months up to 540 months} \div 12$

However, if an employee performs service during his or her career in covered positions under both this Appendix G and the CPC SERP: the employee's entire benefit will be calculated under Section F.04 of the CPC SERP and payable under the terms of that program; all benefits accrued under this Program will be eliminated; and no amounts will be payable under this Appendix G.

- (b) The total benefit payable is a single, straight life annuity commencing at age 65, assuming an annual benefit equal to the gross benefit under (a). The form of benefit and timing of commencement will be determined under Section G.06.
- (c) If a Participant's benefit is paid under this Program before age 65, the benefit will be adjusted as follows. The Early Retirement Benefit is a monthly benefit equal to the Normal Retirement Benefit reduced by the lesser of:
  - (1) 1/12th of 2.5% for each calendar month the payment of benefits begins before age 65; or
  - (2) 2.5% for each Benefit Point less than 85 where the Participant's Benefit Points (truncated to reach a whole number) equal the sum of:
    - (A) his or her age (computed to the nearest 1/12th of a year) at the annuity starting date and
    - (B) 1/12th of his or her months of Credited Service under the applicable Qualified Plan (also computed to the nearest 1/12th of a year) as of the date his or her employment terminated.

A Participant's Vesting Service and months of Credited Service earned under the Qualified Plans (or deemed earned in the event of a transfer) are used to determine whether the Early Retirement Benefit provisions apply and to calculate the early retirement reduction.

- (d) Except as provided under Sections G.06(c) and G.07, no benefit will be paid under this Program if a Participant:
  - (1) experiences a Termination of Employment before attaining age 55 and completing 120 Months of Benefit Service; or
  - (2) is not an active Participant in the Plan at the time of his or her Termination of Employment.

Notwithstanding any other provision of the Program to the contrary, a Participant who otherwise satisfies the requirements of this subsection (d) is not required to retire and commence benefits under this Program upon his or her Termination of Employment.

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

- (a) A Participant's total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section G.04 and all plans included in Section G.05(b), may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant's benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.
  - (1) The Participant's Final Average Salary will be reduced for early retirement applying the factors in Section G.04(c).
  - (2) The limit in this subsection may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.
- (b) The gross benefit calculated under Section G.04 above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).
- (c) For purposes of the offset in subsection (b):
  - (1) Offsets will be made:
    - (A) with respect to:
      - (i) benefits accrued under any plan while a Participant is employed by the Affiliated Companies; and
      - (ii) benefits accrued under any plan while a Participant was employed by a company before it became an Affiliated Company;
    - (B) with respect to any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company ("Special Agreements"); and
    - (C) without regard to:
      - (i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A; or

(ii) Part II benefits under the Litton Restoration Plan and Litton Restoration Plan II.

- (2) If a Participant's benefit under this Program commences upon reaching age 65, the Participant's benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions stated in Section G.09.
  - (3) If a Participant's benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan's terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions of Section G.09.
  - (4) If a Participant previously received a distribution under one of the plans described in (b) above for a period of service that counts as Months of Benefit Service, that previously received benefit applies toward the limit under this Section.
- (e) Example: A Participant elects to receive an early retirement benefit at age 55 after completing 240 Months of Benefit Service with Final Average Salary equal to \$250,000. The Participant has accrued monthly benefits under the Northrop Grumman Electronic Systems Pension Plan (the "ES Plan") equal to \$2,550 payable at age 55, the Northrop Grumman ERISA Supplemental Program 2 ("ERISA 2") equal to \$600 payable at age 55, and the Northrop Grumman Electronic Systems Executive Pension Plan (the "ES EPP") equal to \$600 payable at age 65.
- The Participant's pre-offset benefit under this Program, calculated in accordance with Section G.04, equals 35% of the Participant's Final Average Salary (\$250,000) x 75% to account for the early retirement reduction under Section G.04(c). This results in a monthly gross benefit under this Program, before the benefit limit is applied, equal to \$5,468.75. The Participant's total net benefit is calculated, taking into account the offset under (b) above, by reducing the gross benefit by the following:
- (1) the \$2,550 monthly benefit under the ES Plan payable at age 55, subject to that plan's conversion factors; and
  - (2) the \$600 ERISA 2 early retirement single life annuity payable at age 55.
  - (3) No offset results from the ES EPP, however, because the Participant is not eligible to receive a benefit at age 55 under that plan.

This results in a monthly gross benefit under this Program equal to \$2,318.75.

**G.06 Payment of Benefits.**

- (a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.
  - (1) A Participant's benefits under this Program will be paid from among the benefit forms available under the Northrop Grumman Pension Plan with respect to benefits accrued on or after July 1, 2008.
  - (2) In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 75% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.
- (b) Except as provided in (c), benefits will commence as of the first day of the month following the Participant's Termination of Employment or, if later, as of the date the Participant's early retirement benefit commences under the Qualified Plans.
- (c) If a Participant has a Termination of Employment because of disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early commencement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).
- (d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section G.07.

**G.07 Preretirement Death Benefits.** If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program on behalf of the Participant if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

- (a) **Amount and Form of Preretirement Death Benefit.** A preretirement death benefit paid to a surviving spouse is the survivor benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint and survivor annuity calculated using the

survivor annuity factors under the Northrop Grumman Pension Plan in an amount determined as follows:

- (1) First, the Participant's gross benefit under Section G.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section G.04(c);
- (2) Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Northrop Grumman Pension Plan) to the amount determined in (1); and
- (3) Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section G.05(b) such that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).

(b) Timing of Preretirement Death Benefit.

- (1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).
- (2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.

(c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

G.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement pension benefits. Notwithstanding any other provision to the contrary, this Section does not apply to any individually-negotiated arrangements between a Participant and the Company concerning severance payments.

- (a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections G.04 or G.07 (as limited by G.05).

- (b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company's obligations under an individual arrangement, and vice-versa.
- (c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under G.05).
- (d) To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).
- (e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.
- (f) This Section does not apply to the Special Agreements.

G.09 Actuarial Assumptions. The following defined terms and actuarial assumptions will be used to the extent necessary under Sections G.05 and G.08 to convert benefits to straight life annuity form commencing upon the Participant reaching age 65:

Interest: Five percent (5%)

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

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

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

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human  
Resources and Administrative Officer

APPENDIX H  
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

Robert P. Iorizzo Program

(Amended and Restated Effective as of October 1, 2004)

Appendix H to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to clarify that the Appendix is part of the Northrop Grumman Supplemental Plan 2 and is not intended to make substantive changes to the Appendix. This Appendix was originally effective July 1, 2003.

- H.01 In General. Robert P. Iorizzo will be entitled to a supplemental benefit in accordance with the provisions of this Appendix, which is intended to act as a supplement to Mr. Iorizzo's benefit under the CPC Supplemental Executive Retirement Program (the "CPC SERP") set forth in Appendix F. Capitalized terms used in this Appendix that are not defined in this Appendix, Appendix F, or Article I of the Plan are taken from the Qualified Plans and are intended to have the same meaning.
- H.02 Benefit Amount. The benefit payable under this Appendix is equal to the additional retirement benefit, if any, payable to Mr. Iorizzo under the terms of Appendix F if his benefit under that Appendix were determined at his retirement in accordance with the benefit formula under Appendix F in effect as of June 30, 2003 (the "Prior Benefit Formula" as set forth in Section H.03).
- (a) If, upon retirement, Mr. Iorizzo's single life annuity benefit calculated under the Prior Benefit Formula (the "Prior Benefit") is greater than the single life annuity benefit determined in accordance with all of the terms of Appendix F in effect as of his retirement date (the "Current Benefit"), Mr. Iorizzo will receive an additional amount under this Appendix equal to the difference between the Prior Benefit and the Current Benefit. If the Current Benefit is equal to or greater than the Prior Benefit, no amount shall be payable under this Appendix H.
- (b) The comparison in (a) will be made applying the early retirement factors, actuarial assumptions, values of total accrued benefits under other defined benefit plans, programs, and arrangements, and other applicable terms specified in Appendix F and each of the relevant plans, programs, and arrangements at the time of Mr. Iorizzo's retirement.



- H.03 Prior Benefit Formula. The Prior Benefit Formula equals  $1-2/3\% \times \text{Final Average Salary} \times \text{months of CPC Service} \div 12$ , subject to the benefit limit as described in Section F.05 of the CPC SERP in effect as of June 30, 2003.
- H.04 Payment of Benefit. Mr. Iorizzo's benefit under this Appendix shall be paid in accordance with the provisions of Appendix F in effect at the time of his retirement and in the same form and manner as his benefit paid under Appendix F.
- H.05 Preretirement Death Benefit. Mr. Iorizzo's surviving spouse may be eligible for a preretirement death benefit under this Appendix if she is eligible for a preretirement death benefit under Appendix F. The benefit payable under this Section is equal to the amount of the additional preretirement death benefit, if any, payable under the terms of Appendix F to his surviving spouse if Mr. Iorizzo's Prior Benefit exceeds his Current Benefit, determined as of the date of his death. If the Current Benefit is equal to or greater than the Prior Benefit, no amount shall be payable as a preretirement death benefit under this Appendix H.

Any preretirement death benefit payable under this Section shall be paid in accordance with the provisions of Appendix F in effect at the time of Mr. Iorizzo's death and in the same form and manner as the preretirement death benefit paid to Mr. Iorizzo's surviving spouse under Appendix F.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley  
J. Michael Hateley  
Corporate Vice President and Chief Human Resources and  
Administrative Officer

NORTHROP GRUMMAN  
ERISA SUPPLEMENTAL PLAN  
(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

Article I	Definitions	2
1.01	Affiliated Companies	2
1.02	CIC Plans	2
1.03	Code	2
1.04	Company	2
1.05	Participant	2
1.06	Plan	2
1.07	Pension Plan Benefits	2
1.08	Pension Plan	2
1.09	Termination of Employment	3
Article II	Eligibility for and Amount of Benefits	4
2.01	Purpose	4
2.02	Eligibility	4
2.03	Amount of Benefit	4
2.04	Preretirement Surviving Spouse Benefit	4
2.05	Forms and Times of Benefit Payments	5
2.06	Beneficiaries and Spouses	5
2.07	Plan Termination	5
2.08	Pension Plan Benefits	6
Article III	Lump Sum Election	7
3.01	In General	7
3.02	Retirees Election	7
3.03	Retirees Lump Sum	8
3.04	Actives Election	9
3.05	Actives Lump Sum – Retirement Eligible	10
3.06	Actives Lump Sum – Not Retirement Eligible	11
3.07	Lump Sums with CIC Severance Plan Election	11
3.08	Calculation of Lump Sum	11
3.09	Spousal Consent	12
Article IV	Miscellaneous	13
4.01	Amendment and Plan Termination	13
4.02	Not an Employment Agreement	14
4.03	Assignment of Benefits	14
4.04	Nonduplication of Benefits	14
4.05	Funding	15
4.06	Construction	15
4.07	Governing Law	15
4.08	Actions By Company	15
4.09	Plan Representatives	15
4.10	Number	15
4.11	2001 Reorganization	15

## INTRODUCTION

The Northrop Grumman ERISA Supplemental Plan (the "Plan"), formerly known as the Northrop Corporation ERISA Supplemental Plan 1, is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

The Plan was last restated effective December 1, 1993. Since that time, the Plan has been amended as follows:

- (a) in December 1999 to (1) provide a lump-sum payment option for participants electing a lump-sum payment under the CIC Plans, (2) address the repeal of section 415(e) of the Code, (3) modify lump-sum interest rate assumptions, (4) update the Plan for new entities and qualified plans in the controlled group, and (5) provide a mechanism for recoupment of overpayments;
- (b) in July 2000 to exclude from the Plan any amounts attributable to the "2000 Ad Hoc Increase for Retirees" Appendix of certain Company tax-qualified plans;
- (c) in April 2001 to address the acquisition of Litton Industries, Inc. and the associated corporate reorganization;
- (d) in September 2001 to include as participants in the Plan certain individuals who became employees of the Northrop Grumman controlled group in connection with the acquisition of certain assets of Aerojet-General Corporation; and
- (e) in December 2003 to exclude any individual who is a participant in the Charles H. Noski Executive Retirement Plan.

ARTICLE I

Definitions

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

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 1.02 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
- 1.03 Code. The Internal Revenue Code of 1986, as amended.
- 1.04 Company. The Company as designated in the Pension Plans.
- 1.05 Participant. Any employee who (a) is eligible for benefits under one or both Pension Plans, (b) meets the eligibility requirements of Section 2.02 of this Plan and (c) and has not received full payment under the Plan.
- 1.06 Plan. The Northrop Grumman ERISA Supplemental Plan, formerly known as the Northrop Corporation ERISA Supplemental Plan 1.
- 1.07 Pension Plan Benefits. This term is defined in Section 2.08 of this Plan.
- 1.08 Pension Plan and Pension Plans. Any of the following:
  - (a) The Northrop Grumman Retirement Plan
  - (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
  - (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
  - (d) The Northrop Grumman Electronics Systems – Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
  - (e) The Northrop Grumman Electronics Systems – Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

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

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

ARTICLE II

Eligibility for and Amount of Benefits

- 2.01 Purpose. The purpose of this Plan is simply to restore to employees of the Company the benefits they lose under the Pension Plans as a result of the benefit limits in Code section 415, as amended, or any successor section ("section 415"), as the benefit limits are described in the applicable Pension Plan.
- 2.02 Eligibility. Each Participant is eligible to receive a benefit under this Plan if:
- (a) he or she has vested in benefits under one or both Pension Plans;
  - (b) he or she has vested benefits reduced because of the application of section 415;
  - (c) he or she is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Plan; and
  - (d) he or she is not a "Participant" in the Charles H. Noski Executive Retirement Plan as that term is defined under that plan.
- 2.03 Amount of Benefit. The benefit payable from the Company under this Plan to a Participant will equal the retirement benefit, if any, which would have been payable to the Participant under the terms of a Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).  
The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.  
Benefits under this Plan will only be paid to supplement benefit payments actually made from a Pension Plan. If benefits are not payable under a Pension Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Plan with respect to such Pension Plan.  
In no event, however, (1) will this Plan pay any amount of a Participant's retirement benefit, if any, attributable to the "2000 Ad Hoc Increase for Retirees" Appendix added to certain of the Company's tax-qualified plans pursuant to the Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Board of Directors resolution adopted May 17, 2000.
- 2.04 Preretirement Surviving Spouse Benefit. Preretirement surviving spouse benefits will be payable under this Plan on behalf of a Participant if such Participant's surviving spouse is eligible for preretirement surviving spouse benefits payable from a Pension Plan. The benefit payable will be the amount which would have been payable under the Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

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

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

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

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

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

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

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

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

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



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

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

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

ARTICLE III

Lump Sum Election

- 3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.08, this Article does not apply to active employees (as defined in Section 3.04) in cases where benefits do not exceed \$10,000 and so are automatically payable in lump sum form under Section 2.05.
- 3.02 Retirees Election. Participants and Participants' beneficiaries already receiving monthly benefits under the Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.
- (a) The election must be made within a 60-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 60-day period in instances where the Company is unable to timely communicate with a particular payee.
  - (b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 60-day period.
  - (c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.  
Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993.
  - (d) If the person receiving payments as of the beginning of the 60-day period dies prior to making a lump sum election, his or her beneficiary, if any, may not make the lump sum election.
  - (e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
  - (f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 60-day period will be irrevocable. If no proper election has been made by the end of the 60-day period, payments will continue unchanged in the monthly form that had previously been applicable.

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

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

- (a) A Participant is considered to be “Active” under this Section if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 60-day period referred to in Section 3.02.
- (b) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
  - (1) Benefits payable to the Participant during his or her lifetime, and
  - (2) Survivor benefits (if any) payable to the Participant’s beneficiary, including preretirement death benefits (if any) payable to the Participant’s spouse.
- (c) An election does not become effective until the earlier of
  - (1) the Participant’s Termination of Employment, or
  - (2) the Participant’s death.Before the election becomes effective, it may be revoked.  
If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.
- (d) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
- (e) After a Participant has a Termination of Employment, no election can be made.
- (f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.
- (g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

- 3.05 Actives Lump Sum – Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
    - (1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
    - (2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form —
      - (A) with the survivor benefit equal to 50% of the Participant's benefit;
      - (B) with the Participant's spouse as the survivor annuitant;
      - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Retirement Plan; and
      - (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
  - (b) As of the first of the 13<sup>th</sup> month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
  - (c) No lump sum payment will be made if:
    - (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
    - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
  - (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
    - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
    - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
    - (3) the spouse survives to the first of the month following the date of the Participant's death.

- 3.06 Actives Lump Sum – Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04, has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
- (a) No monthly benefit payments will be made.
  - (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
  - (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
    - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
    - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
    - (3) the spouse survives to the first of the month following the date of the Participant's death.
  - (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.
- 3.07 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.
- 3.08 Calculation of Lump Sum. The factors to be used in calculating the lump sum are as follows:
- Interest: Whichever of the following two rates that produces the smaller lump sum:
- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
  - (2) the applicable interest rate under section 417(e)(3) of the Code that would be used to calculate a lump sum value for the benefit under the Pension Plans.

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

Increase in Section 415 Limit: 4% per year.

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

Miscellaneous

4.01 Amendment and Plan Termination. The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part.

- (a) Except as provided in (f) and Section 4.05, no amendment, suspension or termination of the Plan may, without the consent of a Participant, affect the Participant's right or the right of the surviving spouse to receive benefits in accordance with this Plan as in effect on the date the employee becomes a Participant.
- (b) The Participant's rights to benefits following any amendment which are preserved by (a) will be determined as if he or she had a Termination of Employment immediately prior to the adoption of the amendment (or its effective date, if later). The determination in the preceding sentence will be based on the relevant factors at that time, such as the Participant's compensation history, service credits and Code limitations on benefits.
- (c) However, the determination in (b) will be adjusted to take into account any post-amendment increases in benefits provided by the Pension Plans. To the extent any amendment to the Pension Plans increases Pension Plan Benefits in plan years for which a Participant already has received his or her benefits under the Plan, the Plan may offset the Participant's future benefits or take other reasonable steps solely to correct any duplicative payment of benefits.

Example 1: Assume an amendment eliminates all future benefits under the Plan. Assume that as of the date of the amendment, a Participant's level of benefits under the Plan is \$150/month less a Pension Plan benefit of \$100/month, leaving the Participant a net benefit of \$50. Under paragraph (b), the Participant's right to that \$50 would be preserved.

Example 2: Same as Example 1, but assume that later the Participant's Pension Plan benefit increases to \$120/month. Under the provisions of this paragraph (c), for future months, the Participant would only be entitled to \$30 under this Plan.

Example 3: Same as Example 2, but assume that the Participant's Pension Plan benefit increases to \$120/month in a plan year for which the Participant already received his benefit of \$50/month from the Plan. Under the provisions of this paragraph (c), the Participant would have received the same benefits of \$20/month (or its actuarial equivalent) under the Pension Plans and under this Plan. To correct this, the Plan could either obtain reimbursement from the tax-qualified plan of the amounts previously paid under this Plan but which are now



an obligation of the tax-qualified plan or temporarily decrease the Participant's benefits in future months by \$20 until the full amount of excess benefits is offset.

- (d) In addition, the determination in (b) will also be adjusted to take into account post-amendment decreases in a Participant's compensation.
- (e) The rights of surviving spouses claiming benefits under the Plan with respect to a Participant will be preserved and limited in the same fashion as a Participant's benefits.
- (f) The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, amend or eliminate any of the provisions of the Plan with respect to lump sum distributions at any time, including the calculation factors of Section 3.08. This applies whether or not a Participant has already made a lump sum election.
- (g) The Company may, in its sole discretion, seek reimbursement from the Pension Plans to the extent this Plan pays Pension Plan Benefits to which Participants were entitled to or became entitled to under the Pension Plans.

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

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

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

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

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

- 4.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.
- Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.
- To the extent the Company gives Participants and beneficiaries enforceable rights to funding, those rights must be determined under the terms of other documents. No such rights exist under this Plan document and the restrictions on amendments in this Plan document will in no case apply to restrict the Company's right to cease or alter the terms of any funding.
- 4.06 Construction. The Company shall have full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.
- 4.07 Governing Law. This Plan shall be governed by the law of the State of California, except to the extent superseded by federal law.
- 4.08 Actions By Company. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.
- 4.09 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.
- 4.10 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.
- 4.11 2001 Reorganization. Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").
- (a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

- (b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.
- (c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.
- (d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.
- (e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human  
Resources and Administrative Officer

NORTHROP GRUMMAN

DEFERRED COMPENSATION PLAN

(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	2
1.1    Definitions	2
ARTICLE II PARTICIPATION	6
2.1    In General	6
2.2    Disputes as to Employment Status	6
2.3    Cessation of Eligibility	6
ARTICLE III DEFERRAL ELECTIONS	7
3.1    Elections to Defer Compensation	7
3.2    Investment Elections	7
3.3    Investment Return Not Guaranteed	8
ARTICLE IV ACCOUNTS AND TRUST FUNDING	9
4.1    Accounts	9
4.2    Use of a Trust	9
ARTICLE V VESTING	10
5.1    In General	10
5.2    Exceptions	10
ARTICLE VI DISTRIBUTIONS	11
6.1    Distribution of Deferred Compensation Contributions	11
6.2    Early Non-Scheduled Distributions	12
6.3    Hardship Distribution	13
6.4    Payments Not Received At Death	13
6.5    Inability to Locate Participant	13
6.6    Committee Rules	14
ARTICLE VII ADMINISTRATION	15
7.1    Committees	15
7.2    Committee Action	15
7.3    Powers and Duties of the Administrative Committee	15
7.4    Powers and Duties of the Investment Committee	16
7.5    Construction and Interpretation	16
7.6    Information	16
7.7    Committee Compensation, Expenses and Indemnity	17

	<u>Page</u>
7.8 Disputes	17
ARTICLE VIII MISCELLANEOUS	19
8.1 Unsecured General Creditor	19
8.2 Restriction Against Assignment	19
8.3 Restriction Against Double Payment	19
8.4 Withholding	19
8.5 Amendment, Modification, Suspension or Termination	20
8.6 Governing Law	20
8.7 Receipt or Release	20
8.8 Administrative Delays	20
8.9 Disputes About Payee	20
8.10 Incorrect Payment of Benefits	20
8.11 Payments on Behalf of Persons Under Incapacity	21
8.12 Limitation of Rights and Employment Relationship	21
8.13 Headings	21
8.14 2001 Reorganization	21
APPENDIX A TRANSFER OF LIABILITIES	23
A.1 Background	23
A.2 Treatment of Transferred Liabilities	23
A.3 Investments	23
A.4 Distributions	23
A.5 Other Provisions	23
APPENDIX B AEROJET-GENERAL LIABILITIES	25
B.1 Background	25
B.2 Treatment of Transferred Liabilities	26
B.3 Investments	26
B.4 Distributions	26
B.5 Other Provisions	26
APPENDIX C TRANSFER OF LIABILITIES	27
C.1 Background	27
C.2 Treatment of Transferred Liabilities	27
C.3 Investments	27
C.4 Distributions	27
C.5 Other Provisions	27

NORTHROP GRUMMAN  
DEFERRED COMPENSATION PLAN  
(Amended and Restated Effective as of October 1, 2004)

The Northrop Grumman Deferred Compensation Plan (the "Plan") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

The Northrop Grumman Corporation (the "Company") established this unfunded Plan for a select group of management and highly compensated employees effective as of December 1, 2000. Since then the Plan has been amended as follows:

- (a) to provide for the acceptance of a transfer of certain liabilities from the Northrop Grumman Executive Deferred Compensation Plan, effective March 1, 2001;
- (b) to account for the acquisition of Litton Industries, Inc. and the associated corporate reorganization, effective December 1, 2000;
- (c) to provide for the acceptance of a transfer of certain liabilities from certain nonqualified deferred compensation plans of Aerojet-General Corporation, effective December 1, 2000;
- (d) to provide the Plan's administrative committee with additional discretion in determining whether and when employees may participate in the Plan, effective January 1, 2002; and
- (e) to provide for the acceptance of a transfer of certain liabilities from the TASC, Inc. Supplemental Retirement Plan, generally effective March 28, 2003.

**ARTICLE I**

**DEFINITIONS**

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

(a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

(b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.

(c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).

(d) "Base Salary" shall mean a Participant's annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.

(e) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

(3) No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who



can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder.

(4) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

(5) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Bonuses" shall mean the bonuses earned under the Company's formal incentive plans as defined by the Administrative Committee.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(i) "Committees" shall mean the Committees appointed by the Board to administer the Plan and investments in accordance with Article VII.

(j) "Company" shall mean Northrop Grumman Corporation and any successor.

(k) "Compensation" shall be Base Salary plus Bonuses.

(l) "Disability" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(m) "Early Distribution" shall mean an election by a Participant in accordance with Section 6.2 to receive a withdrawal of amounts from his or her Account prior to the time at which such Participant would otherwise be entitled to such amounts.

(n) "Effective Date" shall be December 1, 2000.

(o) "Eligible Employee" shall mean any Employee who meets the following conditions:

- (1) he or she is initially treated by the Affiliated Companies as an Employee and not as an independent contractor; and
- (2) he or she meets the eligibility criteria established by the Administrative Committee.

The eligibility criteria established by the Administrative Committee will include, but not be limited to, classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(p) "Employee" shall mean any common law employee of the Affiliated Companies.

(q) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(r) "Hardship Distribution" shall mean a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of his or her dependent (as defined in Section 152(a) of the Code), loss of a Participant's property due to casualty, or other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that would constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, a Hardship Distribution may not be made to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under this Plan.

(s) "Initial Election Period" shall mean:

(1) in the case of an Employee who becomes an Eligible Employee upon the Effective Date of the Plan and who is entitled to participate under Article II, the 30-day period ending on the Effective Date of the Plan;

(2) in the case of a newly hired Employee (other than an Employee described in (3) below) who becomes an Eligible Employee after the Effective Date and who is entitled to participate under Article II, the 30-day period following the date on which the Employee first becomes an Eligible Employee;

(3) in the case of an individual who becomes an Employee as a result of a merger or acquisition, who becomes an Eligible Employee after the Effective Date, and who is entitled to participate under Article II, the period beginning on the date on which the Employee first becomes an Eligible Employee and ending on the date prescribed by the Administrative Committee for Eligible Employees affected by the merger or acquisition; and

(4) in the case of an Employee who becomes an Eligible Employee because of a raise or promotion after the Effective Date and who is entitled to participate under Article II, the next Open Enrollment Period.

(t) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VII.

(u) "Open Enrollment Period" means the period near the end of each Plan Year designated by the Administrative Committee for electing deferrals for the following Plan Year.

(v) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

(w) "Payment Date" shall mean:

(1) for distributions upon early termination under Section 6.1(a), a date after the end of the month in which termination of employment occurs;

(2) for distributions after Retirement, Disability or death under Section 6.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable; and

(3) for distributions with a scheduled withdrawal date under Section 6.1(c), a date after the December 31 prior to the elected payment year,

the exact date in each case to be determined by the Administrative Committee to allow time for administrative processing.

(x) "Plan" shall be the Northrop Grumman Deferred Compensation Plan.

(y) "Plan Year" shall be the calendar year.

(z) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.

(aa) "Scheduled Withdrawal Date" shall mean the distribution date elected by the Participant for an in-service withdrawal of amounts deferred in a given Plan Year, and earnings and losses attributable thereto, as set forth on the election form for such Plan Year.

**ARTICLE II**

**PARTICIPATION**

**2.1 In General**

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan.

(b) Anyone who becomes an Eligible Employee after the Effective Date will be entitled to become a Participant during his or her Initial Election Period or any subsequent Open Enrollment Period.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her account under the Plan.

**2.2 Disputes as to Employment Status**

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary plan description and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees.

**2.3 Cessation of Eligibility**

If the Administrative Committee determines or reasonably believes that a Participant has ceased to be a management or highly compensated employee within the meaning of ERISA Title I, the Participant will no longer be able to defer any further compensation under the Plan.

**ARTICLE III**

**DEFERRAL ELECTIONS**

**3.1 Elections to Defer Compensation**

(a) **Initial Elections.** Each Participant may elect to defer an amount of Compensation by filing an election with the Administrative Committee no later than the last day of his or her Initial Election Period.

(b) **Subsequent Elections.** Except as provided in Section 2.3, a Participant may maintain, increase, decrease or terminate a deferral election with respect to Compensation for any subsequent Plan Year by filing a new election in the Open Enrollment Period for the Plan Year. These elections for a Plan Year are irrevocable.

(c) **General Rules for all Elections.** The amount of Compensation that an Eligible Employee may elect to defer is any Compensation earned after the date on which the Eligible Employee elects to defer in accordance with (a) or (b) above. The Administrative Committee may establish procedures for elections and set limits and other requirements on the amount that may be deferred. The Administrative Committee may change these rules from time to time. An Eligible Employee's minimum contribution for any Plan Year will be \$5,000, provided the minimum contribution can be satisfied from any element of Compensation. A Participant who ceases to be eligible under Section 2.3 may not elect to defer Compensation under this Plan.

(d) **Committee Rules.** All elections must be made in accordance with rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

**3.2 Investment Elections**

(a) The Investment Committee will establish a number of different types of investments for the Plan. The Investment Committee may change the investments from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing account balances will be invested in the various types of investment and may change their elections from time to time.

(c) Although the Participants may designate the type of investments, the Investment Committee is not bound to invest in any particular investment. The Investment Committee will select from time to time, in its sole and absolute discretion, commercially available investments of each of the types offered. All investments remain the property of the Affiliated Companies (or the rabbi trust under Section 4.2) and are not Plan assets. Investments are used solely for purposes of measuring the deemed earnings and losses in Participants' Accounts under Section 4.1.

(d) Selections of the types of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules which may include, among other matters, limitations on the amounts which may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe rules for valuing accounts for purposes of transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change investment elections and make transfers.

(4) The Administrative Committee may change its rules from time to time and without prior notice to Participants.

### 3.3 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

## ARTICLE IV

### ACCOUNTS AND TRUST FUNDING

#### 4.1 Accounts

The Administrative Committee shall establish and maintain an Account for each Participant under the Plan. Each Participant's Account shall be further divided into separate subaccounts ("investment subaccounts"), each of which corresponds to an investment type elected by the Participant pursuant to Section 3.2(a). A Participant's Account shall be credited as follows:

(a) The Administrative Committee shall credit the investment subaccounts of the Participant's Account with an amount equal to Compensation deferred by the Participant in accordance with the Participant's election under Section 3.2(b); that is, the portion of the Participant's deferred Compensation that the Participant has elected to be deemed to be invested in a certain type of investment shall be credited to the investment subaccount corresponding to that investment type.

(b) The investment subaccounts of Participants' Accounts will be credited with earnings or losses based on the earnings or losses of the corresponding investments selected by the Investment Committee and valued in accordance with the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(2) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

(c) In the event that a Participant elects for a given Plan Year's deferral of Compensation to have a Scheduled Withdrawal Date, all amounts attributed to the deferral of Compensation for such Plan Year shall be accounted for in a manner which allows separate accounting for the deferral of Compensation and investment gains and losses associated with such Plan Year's deferral of Compensation.

#### 4.2 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies under the Plan. Any trust set up will be a rabbi trust.

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**ARTICLE V**

**VESTING**

5.1 **In General**

A Participant's interest in his or her Account will be nonforfeitable.

5.2 **Exceptions**

The following exceptions apply to the vesting rule:

- (a) Forfeitures on account of a lost payee. See Section 6.4.
- (b) Forfeitures under an escheat law. See Section 6.4.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses paid from a Participant's Account.
- (e) Investment losses.
- (f) Forfeitures resulting from early withdrawals. See Section 6.2.



ARTICLE VI

**DISTRIBUTIONS**

6.1 Distribution of Deferred Compensation Contributions

(a) Distributions Upon Early Termination.

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly installments over a 5, 10 or 15-year period, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so requires.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date.

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her Initial Election Period from among those listed below:

(A) A lump sum distribution on the Participant's Payment Date.

(B) Quarterly installments over 5 years beginning on the Participant's Payment Date.

(C) Quarterly installments over 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service under this Section, the most recently elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of

\$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(5) The Participant's Account shall continue to be credited with earnings pursuant to Section 4.1 of the Plan until all amounts credited to his or her Account under the Plan have been distributed.

(c) Distribution With Scheduled Withdrawal Date. A Participant who has elected a Scheduled Withdrawal Date for a distribution while still in the employ of the Affiliated Companies, will receive the designated portion of his or her Account as follows:

(1) A Participant's Scheduled Withdrawal Date can be no earlier than two years from the last day of the Plan Year for which the deferrals of Compensation are made.

(2) A Participant may extend the Scheduled Withdrawal Date for any Plan Year, provided such extension occurs at least one year before the Scheduled Withdrawal Date and is for a period of not less than two years from the Scheduled Withdrawal Date. The Participant shall have the right to twice modify any Scheduled Withdrawal Date.

(3) Payments under this subsection may be in the form of a lump sum, or 2, 3, 4 or 5-year quarterly installments. The default form will be a lump sum. If the Account balance to be distributed is \$25,000 or less, payment will automatically be made in a lump sum. Payments will commence on the Scheduled Withdrawal Date.

(4) In the event a Participant terminates employment with the Affiliated Companies prior to the commencement or completion of a distribution under this subsection, the portion of the Participant's Account associated with a Scheduled Withdrawal Date which has not been distributed prior to such termination shall be distributed in accordance with Section 6.1(a) and (b) along with the remainder of the Account.

## 6.2 Early Non-Scheduled Distributions

A Participant shall be permitted to elect an Early Distribution from his or her Account prior to a Payment Date under Section 6.1, subject to the following restrictions:

(a) The election to take an Early Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The amount of the Early Distribution shall equal up to 90% of his or her Account balance.

(c) The amount described in subsection (b) above shall be paid in a lump sum as of a date after the receipt by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

(d) A Participant shall forfeit 10% of the amount of the requested distribution. The Affiliated Companies shall have no obligation to the Participant or his or her Beneficiary with respect to such forfeited amount.

(1) Example 1: A Participant requests a distribution of 100% of the Account. The Participant receives 90%. The amount forfeited is 10% of the Account.

(2) Example 2: A Participant requests a distribution of 50% of the Account. The Participant receives 45%. The amount forfeited is 5% of the Account.

(e) If a Participant receives an Early Distribution of either all or a part of his or her Account, the Participant will be ineligible to participate in the Plan for the balance of the Plan Year and the following Plan Year. All distributions shall be made on a pro rata basis from among a Participant's investment subaccounts.

### 6.3 Hardship Distribution

A Participant shall be permitted to elect a Hardship Distribution from his or her Account prior to a Payment Date under Section 6.1, subject to the following restrictions:

(a) The election to take a Hardship Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The Administrative Committee shall have made a determination that the requested distribution constitutes a Hardship Distribution.

(c) The amount determined by the Administrative Committee as a Hardship Distribution shall be paid in a lump sum as of a date after the approval by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

### 6.4 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check which has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

### 6.5 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required Payment Date, the amount allocated to the Participant's Deferral Account shall be forfeited. If, after such forfeiture, the Participant or

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Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

6.6 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

## ARTICLE VII

### ADMINISTRATION

#### 7.1 Committees

(a) An Administrative Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Chairman, President, and Chief Executive Officer. The number of members comprising the Administrative Committee shall be determined by the Chairman, President, and Chief Executive Officer, who may from time to time vary the number of members. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Chairman, President, and Chief Executive Officer. The Chairman, President, and Chief Executive Officer may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Administrative Committee shall be filled promptly by the Chairman, President, and Chief Executive Officer.

(b) An Investment Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Board. The number of members comprising the Investment Committee shall be determined by the Board, who may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

#### 7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The chairman of a Committee, or any other member or members of each Committee designated by the chairman of the Committee, may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

#### 7.3 Powers and Duties of the Administrative Committee

The Administrative Committee, shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

(c) To maintain all records that may be necessary for the administration of the Plan;

(d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

(g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

(h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

#### 7.4 Powers and Duties of the Investment Committee

The Investment Committee, shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To select types of investment and the actual investments against which earnings and losses will be measured;

(b) To oversee the rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

#### 7.5 Construction and Interpretation

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

7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the Compensation of all Participants, their death or other events which cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

(a) Claims

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

(b) Claim Decision

Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (A) the specific reason or reasons for such denial; (B) specific references to pertinent provisions of this Plan on which such denial is based; (C) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (D) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (E) the time limits for requesting a review under subsection (c).

(c) Request For Review

Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

(d) Review of Decision

Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing, in a manner calculated to be understood by the Claimant, the decision setting forth the specific reasons for the decision containing specific references to the pertinent provisions of this Plan on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

(e) Limitation on Claims

No action may be brought in court on a claim for benefits under this Plan after the later of:

- (1) Two years after the claim arose, or
- (2) One year after the decision on appeal under this Section (or one year after the expiration of the time to take an appeal if no appeal is taken).



**ARTICLE VIII**

**MISCELLANEOUS**

**8.1 Unsecured General Creditor**

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

**8.2 Restriction Against Assignment**

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

**8.3 Restriction Against Double Payment**

If a court orders an assignment of benefits despite the previous Section, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

**8.4 Withholding**

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated

Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant's Account balance below its dollar value as determined under Section 4.1(b) immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment losses. In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

8.7 Receipt or Release

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Committees and the Affiliated Companies. The Administrative Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.8 Administrative Delays

If the amount of any payment cannot be determined by the date it is supposed to be paid, or if it is not possible to make payments on time because the Administrative Committee cannot find the payee, or adequate information is not available to make the distribution, or the payee has failed to file the applicable forms with the Administrative Committee, or because of other legal, financial or administrative obstacles, payments may be made no later than 60 days after the date payment becomes possible.

8.9 Disputes About Payee

In the event that the Administrative Committee determines that there is some uncertainty as to whom any Plan payment is due, the Administrative Committee is authorized to delay payment, seek agreements from the interested parties, make payment to an appropriate judicial forum and allow the court to determine the identity of the proper payee, and/or take any other necessary or appropriate steps to protect the Plan and the interested parties.

#### 8.10 Incorrect Payment of Benefits

If the Administrative Committee determines in its full discretion that the Plan made an incorrect payment of benefits, and that a correction is necessary or desirable under the law, then:

(a) If the Plan makes an overpayment of the amount of any benefits due any payee under the Plan, the Plan may recover the amounts either by requiring the payee to return the excess to the Plan, by reducing any future Plan payments to the payee, or by any other method deemed reasonable by the Administrative Committee.

(b) If the Plan makes a late payment or an underpayment of the amount of any benefits due any payee under the Plan, correct payment will be made as soon as possible after the late payment or underpayment is discovered.

#### 8.11 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

#### 8.12 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan and Trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

#### 8.13 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

#### 8.14 2001 Reorganization

Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").

(a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

(b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

(c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.

(d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.

(e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human

Resources and Administrative Officer

**APPENDIX A**

**TRANSFER OF LIABILITIES**

**A.1 Background**

Effective March 1, 2001, all liabilities under the Northrop Grumman Executive Deferred Compensation Plan other than the Estate Enhancement Program Account, were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) ("Transferred Liabilities") and the Participant to whom those liabilities are owed ("Transferred Participant").

**A.2 Treatment of Transferred Liabilities**

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

**A.3 Investments**

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.2. Section 3.3 will also apply.

**A.4 Distributions**

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Article VI. The following exceptions and special rules apply:

**(a) Section 6.1**

(1) For purposes of Sections 6.1(a)(2) and 6.1(b)(1), the Transferred Participant will be deemed to have made an election of 5 or 10-year installments corresponding to his elections of 5 or 10-year installments under Section 9(b)(2) of the Northrop Grumman Executive Deferred Compensation Plan.

(2) The Transferred Participant may utilize Section 6.1(b)(2) to vary the form of his distribution.

(3) Distributions under Section 6.1(c) are not available.

**(b) Section 6.2.** The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participant's Account for purposes of distributions under Section 6.2.

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(c) Sections 6.3-6.6. These Sections are fully applicable.

A.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

**APPENDIX B**

**AEROJET-GENERAL LIABILITIES**

**B.1 Background**

(a) Effective as of the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation (the "APA"), certain liabilities ("Transferred Liabilities") under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies and the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan were transferred to this Plan.

(b) The transfer took place pursuant to section 10.6 of the APA, under which Northrop Grumman acquired the Azusa and Colorado Operations units from Aerojet-General Corporation. That section reads:

\* \* \* \* \*

**10.6 Unfunded Deferred Compensation**

(a) Subject to legal requirements for employee acquiescence, as of the effective time of the Closing, the Purchaser shall assume any and all obligations of the Seller to pay any and all unfunded deferred compensation as set forth on Schedule 10.6 for all Transferring Employees, provided such benefits are adequately reflected on the Balance Sheet.

(b) The Seller shall retain any and all legal obligation to pay any and all unfunded deferred compensation for all Aerojet Employees that are not Transferring Employees.

\* \* \* \* \*

(c) This Appendix is intended to effectuate the assumption of certain of the liabilities contemplated by section 10.6 of the APA. It describes the treatment of those liabilities (plus earnings) and the Participants to whom those liabilities are owed ("Transferred Participants").

(d) The only liabilities assumed by this Plan are:

(1) those from the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan, and

(2) those liabilities under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies which represent supplements with respect to an Aerojet defined contribution plan.

No liabilities are assumed which represent supplements with respect to an Aerojet defined benefit plan.

(e) The assumed liabilities will be represented by starting Account balances for the Transferred Participants, determined in the discretion of the Administrative Committee.

**B.2 Treatment of Transferred Liabilities**

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

**B.3 Investments**

The Transferred Participants may make investment elections for the Transferred Liabilities in accordance with Section 3.2. Section 3.3 will also apply.

**B.4 Distributions**

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Article VI. The following exceptions and special rules apply:

**(a) Section 6.1**

(1) For purposes of Sections 6.1(a)(2) and 6.1(b)(1), the Transferred Participants will be deemed to have made an election of 10-year installments.

(2) The Transferred Participants may utilize Section 6.1(b)(2) to vary the form of their distributions.

(3) Distributions under Section 6.1(c) are not available.

**(b) Section 6.2.** The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participants' Accounts for purposes of distributions under Section 6.2.

**(c) Sections 6.3-6.6.** These Sections are fully applicable.

**B.5 Other Provisions**

The Transferred Liabilities and the Transferred Participants will be fully subject to the provisions of Articles IV, V, VII and VIII.



APPENDIX C

**TRANSFER OF LIABILITIES**

C.1 Background

(a) Effective as of the TASC Merger Date, all liabilities under the TASC, Inc. Supplemental Retirement Plan were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) ("Transferred Liabilities") and the Participant to whom those liabilities are owed ("Transferred Participant").

(b) The "TASC Merger Date" is March 28, 2003 or such other date that the Northrop Grumman Director of Benefits Administration and Services determines is feasible. If the Northrop Grumman Director of Benefits Administration and Services determines that March 28, 2003 is not feasible, he shall identify in writing, before March 28, 2003, a date that is feasible.

C.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

C.3 Investments

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.2. Section 3.3 will also apply.

C.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Article VI.

C.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

**NORTHROP GRUMMAN SUPPLEMENTARY  
RETIREMENT INCOME PLAN**

Amended and Restated

Effective January 1, 2004

**1. Purpose.** The purpose of the Northrop Grumman Supplementary Retirement Income Plan (SRIP), as amended and restated effective January 1, 2004, is to provide supplemental retirement and death benefits to those:

- (i) employees, including officers, of Northrop Grumman Space & Mission Systems Corp. and its subsidiaries (“NGSMSC”) whose benefits under the Northrop Grumman Space & Mission Systems Corp. Salaried Pension Plan (“SPP”) have been limited by virtue of §415 of the Internal Revenue Code of 1986 (“Code”);
- (ii) management and highly-compensated employees of NGSMSC whose benefits under the SPP are limited by Code §401(a)(17);
- (iii) management and highly-compensated employees of NGSMSC whose compensation otherwise included as pensionable earnings received by such individual within the meaning of the SPP could not be so included because such compensation was deferred in accordance with the provisions of the Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan or the Northrop Grumman Deferred Compensation Plan (“DC Plan” or “DC Plans”); and
- (iv) management and highly-compensated employees of NGSMSC whose compensation otherwise included as “Earnings” under the SPP and service otherwise included as Benefit Service under the SPP would not be so included because of a determination by NGSMSC that such inclusion could violate the regulations under Code §401(a)(4).

The SRIP is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act (“ERISA”) and is designed to provide benefits which mirror the provisions of the SPP but cannot be paid from the SPP because of certain Code limitations.

The SRIP previously was named the TRW Supplementary Retirement Income Plan. The SRIP was amended and restated effective January 1, 2004 to change the name of the plan and to make the administration provisions consistent with the administration provisions in the order non-qualified retirement plans sponsored by Northrop Grumman Corporation.

**2. Eligibility.** Employees of NGSMSC covered by the SPP and not otherwise covered by the BDM International, Inc. Defined Contribution Supplemental Executive

Retirement Plan (the "BDM DC SERP") whose base pay and bonus paid in any year (or deferred pursuant to the DC Plan) exceed the limitations of Code §401(a)(17) shall automatically be covered under the SRIP. All SPP participants not otherwise covered by the BDM DC SERP who are eligible to receive benefits from the SPP shall automatically receive a benefit from the SRIP if their benefit cannot be fully provided under the SPP because of the limits under Code §415.

The foregoing notwithstanding, effective as of February 28, 2003, individuals who qualify as "TRW Automotive Participants" under the February 28, 2003 Employee Matters Agreement between Northrop Grumman Space & Mission Systems Corp. and TRW Automotive Acquisition Corp. cease to participate in the SRIP, and the SRIP and NGSMSC cease to be liable for TRW Automotive Participants' benefits.

**3. Benefits.** The amount of the benefit payable under the SRIP shall be equal to the amount which would be payable to or in respect of a participant under the SPP if the limitations identified in §1 above were inapplicable, less the amount of the benefit payable under the SPP, taking into account such limitations. The amount of benefit payable under the SRIP to a participant shall also be reduced to the extent that any other nonqualified plan established by NGSMSC or any other entity affiliated with NGSMSC under Code §414(b) or (c) ("Affiliate") pays benefits to the participant that are attributable to limits imposed upon the SPP other than those identified in §1 above. The benefit payable under the SRIP for those participants who were participants in The BDM Corporation Supplemental Executive Retirement Plan which was merged into the SRIP (the "BDM SERP") on the close of business on December 31, 1998 (the "Merger Effective Date") will not be less than the benefit which had accrued under the BDM SERP as of the Merger Effective Date for such participants. Schedule A attached hereto sets forth the relevant provisions of the BDM SERP necessary to calculate such accrued benefits. The benefit payable under the SRIP for the sole participant who was a "Covered Executive" in the Astro Aerospace Corporation Supplemental Executive Retirement Plan (the "Astro SERP") on the close of business on November 30, 1999 will not be less than the benefit which had accrued under the Astro SERP as of November 30, 1999 for such participant, as determined in accordance with the terms of the Astro SERP as in effect on November 30, 1999 (a copy of which is attached hereto as Schedule B) and the benefit payable to such participant's spouse under the SRIP shall not be less than the benefit which would have been payable to such spouse under the terms of the Astro SERP had the participant died on November 30, 1999.

#### **4. Payment of Benefits.**

a. Except as provided below, no benefit is payable from the SRIP, even if the participant has terminated his/her employment, unless a participant has five years of vesting service as defined under the SPP and has attained age fifty-five, provided, however, a benefit will be payable from the SRIP prior to a participant's attainment of age fifty-five if the participant terminates his or her employment in connection with (i) a special voluntary early retirement program offered under the SPP, the terms of which provide for eligibility prior to age fifty-five, or (ii) a special early commencement option under the SPP, the terms of which provide for commencement of the SPP benefit before age fifty-five.

b. If a participant who has five or more years of vesting service dies before his/her benefit commencement date under the SPP, the SRIP benefit shall be paid in the same form and shall commence at the same time as a pre-retirement survivor benefit under the SPP.

c. Except as provided in paragraph g. or as provided below, any participant in the SPP and the SRIP who is entitled to a vested or deferred vested pension under the SPP shall have his SRIP benefit (i) commence at the same time as his benefit commencement date under the SPP and (ii) paid in the same form and with the same designated joint annuitant, if any, as his form of payment under the SPP unless otherwise provided under the terms of any Qualified Domestic Relations Order applicable to said participant or unless otherwise determined by the Administrative Committee in its sole discretion. Any such participant who is eligible for the special early commencement option under the SPP may petition the Administrative Committee at any time at least two months prior to his severance from service date under the SPP to change such form of payment into a single sum or annual installments from two to ten years, or any other payment form approved by the Administrative Committee in their or its discretion. If annual installment payments are elected, interest, if any, on such installments shall be determined by the Actuary, subject to approval by the Administrative Committee.

d. Except as provided above or in paragraph g., payment of benefits under the SRIP shall be made commencing with the January following the date the participant becomes eligible, having terminated his employment with NGSMSC and all Affiliates, for benefits under the SPP; provided, however, that if the participant's termination of employment is the result of a divestiture of the NGSMSC or Affiliate unit or operation where the participant worked prior to termination of employment and the participant obtains employment with the entity that acquired such unit or operations, then the SRIP benefit shall not be payable until such participant is eligible for and receives (or commences to receive) his SPP benefit (even if the SRIP benefit is less than \$5,000).

e. Except as provided above and in paragraph g., the automatic form of benefit payable under the Plan shall be, for an unmarried participant, a single life annuity, and, for a married participant, a 50% joint and survivor annuity, with the participant's eligible spouse being the survivor annuitant. Notwithstanding the above, the participant may elect, by notice to the administrator for the SRIP, at any time at least two months prior to the severance from service date under the SPP (the "Severance from Service Date") to change such form of payment into a single sum or annual installments from two to ten years, or any other payment form approved by the Administrative Committee in its discretion. If annual installment payments are elected, interest, if any, on such installments shall be determined by the Actuary, subject to approval by the Administrative Committee.

f. If not rejected by the Administrative Committee at least 14 days prior to the Severance from Service Date, any election of a form of payment or benefit commencement date other than the automatic form and commencement date shall be irrevocable.

g. If the present value of a participant's interest in the SRIP, determined as of the later of the participant's age 55 or severance from service date under the SPP, is less than an amount which, if converted to a single sum equals \$5,000, the benefit shall be paid out in a single sum, either at the same time as his benefit commencement date under the SPP or at another date as determined by the Administrative Committee in its sole discretion.

h. Payments to be made pursuant to the SRIP shall be made by NGSMSC, with any appropriate reimbursement being made by subsidiaries of NGSMSC. The SRIP shall be unfunded, and NGSMSC shall not be required to establish any special or separate fund nor to make any other segregation of assets in order to assure the payment of any amounts under the SRIP. Participants of the SRIP shall have the status of general unsecured creditors of NGSMSC and the SRIP constitutes a mere promise by NGSMSC to make benefit payments in the future.

**5. Non-Alienation of Benefits.** Neither a participant nor any other person shall have any right to sell, assign, transfer, pledge, mortgage or otherwise encumber, in advance of actual receipt, any SRIP benefit. Any such attempted assignment or transfer shall be ineffective; NGSMSC's sole obligation under the SRIP shall be to pay benefits to the participant, his beneficiary or his estate, as appropriate. No part of any SRIP benefit shall, prior to actual payment, be subject to the payment of any debts, judgments, alimony or separate maintenance owed by a participant or any other person; nor shall any SRIP benefit be transferable by operation of law in the event of a participant's or any other person's bankruptcy or insolvency, except as required or permitted by law.

#### **6. Committees.**

a. An Administrative Committee and an Investment Committee (together, the "Committees"), each of one or more persons, shall be appointed by and serve at the pleasure of the board of directors of NGSMSC (the "Board"). The number of members comprising the Committees shall be determined by the Board, which may from time to time vary the number of members. A member of the Committees may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Committees shall be filled promptly by the Board.

b. i. Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of the Committees may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committees then in office. A member of the Committees shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

ii. The Board shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The members of the Investment Committee will elect one of their members as Chairman and will appoint a Secretary and any other officers as the Investment Committee may deem necessary. The Committees shall conduct their business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Committees may deem appropriate. The Committees shall hold meetings from time to time in any convenient location.

c. The Administrative Committee shall enforce the SRIP in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

i. To construe and interpret the terms and provisions of the SRIP and make all factual determinations;

ii. To compute and certify to the amount and kind of benefits payable to participants and their beneficiaries;

iii. To maintain all records that may be necessary for the administration of the SRIP;

iv. To provide for the disclosure of all information and the filing or provision of all reports and statements to participants, beneficiaries or governmental agencies as shall be required by law;

v. To make and publish such rules for the regulation of the SRIP and procedures for the administration of the SRIP as are not inconsistent with the terms hereof;

vi. To appoint a plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the SRIP as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

vii. To exercise powers granted the Administrative Committee under other Sections of the SRIP; and

viii. To take all actions necessary for the administration of the SRIP, including determining whether to hold or discontinue insurance policies purchased in connection with the SRIP.

d. The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

i. To oversee the rabbi trust, if any; and

ii. To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

e. The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of the SRIP, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliates and any participant or beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the SRIP.

f. To enable the Committees to perform their functions, the Affiliates adopting the SRIP shall supply full and timely information to the Committees on all matters relating to the compensation of all participants, their death or other events that cause termination of their participation in the SRIP, and such other pertinent facts as the Committees may require.

g. i. The members of the Committees shall serve without compensation for their services hereunder.

ii. Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

iii. extent permitted by ERISA and applicable state law, NGSMSC shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliates against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the SRIP, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by NGSMSC or provided by NGSMSC under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

#### **7. Claims Procedure.**

a. A person who believes that he or she is being denied a benefit to which he or she is entitled under the SRIP (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

b. Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (A) the specific reason or reasons for such denial; (B) specific references to pertinent provisions of the SRIP on which such denial is based; (C) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (D) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (E) the time limits for requesting a review under subsection (c).

c. Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

d. Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing, in a manner calculated to be understood by the Claimant, the decision setting forth the specific reasons for the decision containing specific references to the pertinent provisions of the SRIP on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

e. No action may be brought in court on a claim for benefits under the SRIP after the later of:

i. Six months after the claim arose, or

ii. Six months after the decision on appeal under this Section (or six months after the expiration of the time to take an appeal if no appeal is taken).

**8. Amendment and Termination.** Nothing herein shall be construed to constitute a contract between NGSMSC and the participants to continue the SRIP. The Administrative Committee may terminate the SRIP at any time and may from time to time amend any or all of its provisions; provided, however, that, the SRIP may not, except as required by law or regulation, be amended in any way that would negatively affect SRIP participants with respect to benefits, vested or unvested, accrued at the time of any such amendment.



**9. Miscellaneous.**

a. As used herein, the masculine gender shall include the feminine gender. To the extent that any term is not defined under the SRIP, it shall have the same meaning as defined in the SPP.

b. Employment rights with NGSMSC shall not be enlarged or affected by the existence of the SRIP.

c. In case any provision of the SRIP shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions.

d. The SRIP shall be governed by the laws of the State of Ohio to the extent not preempted by ERISA.

Executed on this 23 day of December, 2003.

NORTHROP GRUMMAN SPACE &  
MISSION SYSTEMS CORP.

By: /s/ RICHARD A. UNDERHILL

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Richard A. Underhill  
Northrop Grumman Corporation  
Vice President, Compensation  
And Benefits

**Article 2****BENEFITS****2.1 Computation of Benefits.**

a. **Total Benefit Objective.** Total retirement benefits from the Company, coupled with expected Social Security benefits, are designed to provide a level of income during retirement based on the Member's service and income while with the Company. The Benefit Objective (as determined on or prior to Normal Retirement Date) for a Member who retires on or after his/her Normal Retirement Date with 20 or more years of Benefit Service (Benefit Service accrues to age 65), is 45% of the Member's Average Annual Compensation for the five highest consecutive plan years of his/her employment with the Company. For Members who retire with less than 20 years of Benefit Service, the Benefit Objective is the amount calculated above reduced by multiplying that amount by a fraction the numerator of which is the number of years of Benefit Service and the denominator of which is 20. The Benefit Objective, as defined above, is intended to be met by unreduced retirement income (without any reductions associated with any payment option) from both the Company's Retirement Plan and Supplemental Executive Retirement Plan plus the unreduced Social Security Benefit (commencing as late as age 67).

b. **Calculation of Benefits Under This Plan.** The benefit payable under this Plan shall be equal to the Benefit Objective as stated in paragraph a. above, reduced, as applicable, by the factors and in accordance with the provisions set forth for such purposes in the Retirement Plan, (i) for commencement prior to Normal Retirement Date, (ii) for election of a form of payment other than life only to the Member, and (iii) upon death, less the Retirement Plan Benefit and the unreduced Social Security Benefit as stated in paragraph a. above. If the benefit payable under this plan according to the preceding sentence plus the Retirement Plan Benefit is less than the Target Benefit Amount, as hereinafter defined, the benefit payable under this Plan shall be equal to the Target Benefit Amount less the Retirement Plan Benefit. The Target Benefit Amount shall mean \$90,000, reduced, as applicable, by the factors and in accordance with the provisions set forth for such purposes in the Retirement Plan, (i) for commencement prior to Normal Retirement Date, (ii) for election of a form of payment other than life only to the Member, and (iii) upon death.

**2.2 Form of Benefit Payments.**

The benefit payable to or on behalf of a Member as determined under Section 2.1 shall be paid in the same form, and to the same beneficiary, if any, as the Member's benefit under the Retirement Plan.

**2.3 Time of Benefit Payments.**

Benefits due under this Plan shall be paid coincident with the payment date of benefits under the Retirement Plan.

ASTRO AEROSPACE CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

ASTRO AEROSPACE CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
ARTICLE I - DEFINITIONS	2
ARTICLE II - DESIGNATION OF COVERED EXECUTIVES	4
ARTICLE III - RETIREMENT BENEFITS	5
3.01 Retirement Allowance on Normal or Postponed Retirement Date	5
3.02 Retirement Allowance on Early Retirement Date	6
3.03 Payment of Retirement Allowance	6
3.04 Retirement Allowance Payable to Surviving Spouse of a Covered Executive	6
3.05 Deeming Rule	7
ARTICLE IV - TERMINATION OF SERVICE	8
4.01 Termination Benefits	8
4.02 Early Commencement of Deferred Retirement Allowance	8
4.03 Applicable Provisions	8
ARTICLE V - DEATH BENEFITS	9
5.01 Benefits on Covered Executive's Death Prior to Retirement	9
5.02 Benefits on a Former Covered Executive's Death Prior to Retirement	9
ARTICLE VI - DISABILITY BENEFITS	11
6.01 Disabled Covered Executives	11
6.02 Disability Retirement	11
6.03 Applicable Provisions	12
ARTICLE VII - ADMINISTRATION	13
ARTICLE VIII - AMENDMENT OR TERMINATION OF THE PLAN	14
ARTICLE IX - CLAIMS REVIEW PROCEDURE	15
9.01 Denial of Benefits	15
9.02 Notice	15
9.03 Appeals Procedure	15
9.04 Review	16

ASTRO AEROSPACE CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

TABLE OF CONTENTS  
(Cont'd)

	<b>Page</b>
ARTICLE X - GENERAL	17
10.01 No Employment Rights	17
10.02 No Claim Against the Company	17
10.03 Incompetence	17
10.04 Nonassignability	17
10.05 Continuance of Payments	18
10.06 Notice	18
10.07 Gender and Number	18
10.08 Corporate Successors	18
10.09 Unclaimed Benefits	18
10.10 Withholding; Employment Taxes	19
10.11 Validity	19
10.12 Applicable Law	19

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ASTRO AEROSPACE CORPORATION  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

INTRODUCTION

The purpose of this Supplemental Executive Retirement Plan (the "Plan") is to provide a further means whereby Astro Aerospace Corporation (the "Corporation") may afford financial security to a select group of Covered Executives of the Corporation, who render valuable services to the Corporation, constituting an important contribution toward its continued growth and success, by providing for additional future compensation so that such employees may be retained and their productive efforts encouraged, all as provided herein. Retirement Allowances under this Supplemental Executive Retirement Plan are in addition to benefits payable under the Astro Aerospace Corporation Employees' Pension Plan and any other qualified retirement plan maintained by the Corporation.

ARTICLE I  
DEFINITIONS

- (a) "Administrator" means the Corporation which shall be responsible for the administration of this Plan.
- (b) "Astro Pension Plan" means the Astro Aerospace Corporation Employees' Pension Plan, as amended from time to time.
- (c) "Affiliate" means a member of a controlled group of corporations, within the meaning of section 414(b) of the Internal Revenue Code ("Code"), which includes the Corporation; a trade or business (whether or not incorporated) which is in common control with the Corporation as determined in accordance with section 414(c) of the Code; or any organization which is a member of an affiliated service group, within the meaning of section 414(m) of the Code, which includes the Corporation, and any other organization required to be aggregated with the Corporation pursuant to section 414(o) of the Code.
- (d) "Corporation" means Astro Aerospace Corporation.
- (e) "Covered Executive" means a person who is a member of the Astro Pension Plan and who is designated by the board of directors of the Corporation as being eligible to receive a Retirement Allowance.
- (f) "Covered Service" means, with respect to a Covered Executive, a number of years and completed months equal to his period of "Service" for purposes of the Astro Pension Plan. For purposes of this Plan, "Service", as defined under the Astro Pension Plan, shall include Service with the Corporation and its Affiliates. Covered Service shall not exceed 35 years.
- (g) "Early Retirement Date" means retirement from employment with Corporation and all Affiliates after attaining age 55 with 10 years of Covered Service.
- (h) "Effective Date" means September 1, 1993.
- (i) "Final Average Earnings" shall have the meaning ascribed under the terms of the Spar Pension Plan except that it will not be subject to the compensation limitation imposed by Internal Revenue Code Section 401(a)(17).
- (j) "Former Covered Executive" means a Covered Executive who is no longer an active Covered Executive of the Plan but who remains entitled to benefits under the Plan and is not yet receiving a Retirement Allowance.

- (k) "Normal Retirement Date" means retirement from employment with Corporation and all Affiliates after attaining age 65.
- (l) "Postponed Retirement Date" means the actual retirement date of a Covered Executive who continues employment with the Corporation or any Affiliate beyond Normal Retirement Date.
- (m) "Plan" means the plan to provide Retirement Allowances set forth herein and as amended from time to time, which shall be known as the Astro Aerospace Corporation Supplemental Executive Retirement Plan.
- (n) "Plan Year" means the period January 1 to December 31.
- (o) "Retired Executive" means a Covered Executive or Former Covered Executive who has retired and is receiving a Retirement Allowance under the Plan.
- (p) "Retirement Allowance" means an amount payable to a Covered Executive, a Former Covered Executive or a Spouse under the terms of the Plan.
- (q) "Spar Pension Plan" or "Registered Plan" means the Spar Aerospace Limited Pension Plan for Executive Employees, as amended from time to time.
- (r) "Spar SERP" means the Spar Aerospace Limited Supplemental Executive Retirement Plan.
- (s) "Spouse" means, with respect to a (Former) Covered Executive, that person to whom the (Former) Covered Executive is lawfully married at the relevant time.
- (t) "Total and Permanent Disability" means a physical or mental condition which results in a Covered Executive being eligible to receive disability benefits under the federal Social Security program, or under any formal program of long-term disability insurance provided by the Corporation or its Affiliates.



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ARTICLE II

DESIGNATION OF COVERED EXECUTIVES

The Board of Directors of the Corporation ("Board") shall, from time to time, in its discretion, designate as Covered Executives, for the purposes of the Plan, individuals who are members of the Astro Pension Plan. Once an individual is designated as a Covered Executive, the Board shall notify such Covered Executive in writing of his designation and shall provide him with a copy of the Plan.

ARTICLE III  
RETIREMENT BENEFITS

3.01 Retirement Allowance on Normal or Postponed Retirement Date. A Covered Executive retiring on his Normal Retirement Date or on his Postponed Retirement Date shall be entitled to receive a monthly Retirement Allowance equal to the excess of:

- (a)  $1/12 \times 2\% \times$  the Covered Executive's Final Average Earnings multiplied by his Covered Service; over
- (b) The sum of the monthly benefits payable to the Covered Executive under the Astro Pension Plan and any other qualified retirement plan to the extent such benefits are attributable to contributions of the Corporation or its Affiliates on the Covered Executive's behalf, excluding employee deferrals and employer matching contributions under the Astro Aerospace Corporation 401(k) Savings Plan ("401(k) Plan").

The benefits payable or benefits that would be payable under (a) and (b) above shall be determined as follows:

- (i) under the Astro Pension Plan (or any other defined benefit plan of the Corporation or its Affiliates in which the Covered Executive participates or participated) assuming a straight life annuity form of benefit; and
- (ii) under any defined contribution plan of the Corporation or its Affiliates in which the Covered Executive participates or participated assuming the Covered Executive's account balance(s) attributable to contributions by the Corporation or its Affiliates (other than elective salary deferrals, other employee contributions, employer matching contributions and earnings thereon) is paid in the form of a single life annuity beginning on the date the payment of the Retirement Allowance commences.

When determining the amount of the Covered Executive's benefits in any plan, any such benefits paid out prior to the date on which the Retirement Allowance is determined (e.g., hardship withdrawals, payments pursuant to a qualified domestic relations order or other in-service withdrawal) shall be treated as if no such payment was made and shall be included in the calculation of (a) and (b) above in accordance with Section 3.05 herein.

3.02 Retirement Allowance on Early Retirement Date. A Covered Executive who retires on an Early Retirement Date shall be entitled to receive a Retirement Allowance commencing on his Early Retirement Date calculated in accordance with Section 3.01 provided that:

- (a) The amounts in Subsection 3.01(a) and 3.01(b) will be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be calculated consistent with the actuarial reduction applied to the benefit under the Astro Pension Plan; and
- (b) The benefits under the Astro Pension Plan and any other qualified retirement plan of the Corporation or its Affiliates will be determined according to the applicable terms of such plan(s) at the Early Retirement Date.

3.03 Payment of Retirement Allowance. Retirement Allowances shall be paid on the first day of each month commencing after the Covered Executive's Normal Retirement Date, Early Retirement Date or Postponed Retirement Date, as the case may be, and, subject to Section 3.04, ceasing with the 360th monthly payment or, if earlier, the payment made coincident with or immediately preceding the death of the Covered Executive.

3.04 Retirement Allowance Payable to Surviving Spouse of a Covered Executive. If a Covered Executive who has a Spouse at the date payment of his Retirement Allowance commences, dies after retirement but before receiving 360 monthly payments of his Retirement Allowance under the Plan, such Spouse is entitled to receive a monthly amount equal to  $66\frac{2}{3}\%$  of the monthly amount paid to the Covered Executive in the month immediately preceding his date of death from the Plan.

This monthly amount is payable to the Spouse for the balance of the 360 payments or until the death of the Spouse, whichever occurs first.

3.05 Deeming Rule. If the benefits payable to a Covered Executive or his Spouse under the Astro Pension Plan or any other qualified plan of the Corporation or its Affiliates are (were):

- (i) commuted at the election of the Covered Executive or his Spouse, or;
- (ii) divided pursuant to a decree, order or judgment of a competent tribunal, or a written separation agreement, relating to a division of property between the Covered Executive and his Spouse or former Spouse in settlement of rights arising out of their marriage or other conjugal relationship, on or after the breakdown of the marriage or other relationship;

for the purposes of calculating the amount of the Covered Executive's or the surviving Spouse's Retirement Allowance, the benefits payable under such plans shall be deemed to be equal to the amount of the benefit that would have been payable if such election to commute or such division of the benefits under the plans had not been made and payment of such benefits commenced at the same time as the Retirement Allowance.

ARTICLE IV  
TERMINATION OF SERVICE

4.01 Termination Benefits. A Covered Executive, who has been a member of the Astro Pension Plan for 24 continuous months and whose employment with the Corporation and its Affiliates is terminated for any reason other than retirement or death prior to his Normal Retirement Date, shall be entitled to a Retirement Allowance commencing, subject to Section 4.02, on his Normal Retirement Date. The Retirement Allowance shall be determined in accordance with section 3.01.

4.02 Early Commencement of Deferred Retirement Allowance. A Former Covered Executive who is entitled to a Retirement Allowance payable under the terms of Section 4.01 who has elected to receive Early Retirement benefits under the Astro Pension Plan will commence receipt of his Retirement Allowance prior to his Normal Retirement Date coincident with the commencement of benefit payments from the Astro Pension Plan provided that he attained the age of 55 and had ten (10) years of Covered Service on his date of termination. The Retirement Allowance payable from such date shall be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be calculated consistent with the actuarial reduction which would be applied under the Astro Pension Plan for an Early Retirement.

4.03 Applicable Provisions. The provisions of Section 3.03 and 3.04 apply to Retirement Allowances paid under Article IV, with such wording changes as may be necessary. However, the provisions of Article V shall apply when a Former Covered Executive dies prior to commencement of his Retirement Allowance.

ARTICLE V  
DEATH BENEFITS

5.01 Benefits on Covered Executive's Death Prior to Retirement. If a Covered Executive dies prior to commencement of a Retirement Allowance, the person who is his Spouse at the date of his death shall be entitled to a monthly amount equal to the excess of:

- (a)  $66\frac{2}{3}\%$  of the amount in Subsection 3.01(a) of the Plan calculated at the date of the Covered Executive's death,  
less
- (b) an amount, if any, equal to the sum of the monthly survivor benefits from the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate payable to the Spouse in the same month.

The actual benefits under the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate will be determined according to the applicable terms of such plan(s) at the date of the Covered Executive's death and shall not include benefits attributable to the Covered Executive's salary deferrals or matching contributions and earnings thereon under the 401(k) Plan.

Payment of the Spouse's benefit will commence on the first day of the month following the Covered Executive's date of death.

This monthly amount is payable to the Spouse for 360 monthly payments or until the death of the Spouse, whichever occurs first.

5.02 Benefits on a Former Covered Executive's Death Prior to Retirement. If a Former Covered Executive dies prior to commencement of a Retirement Allowance, his Spouse at the date of death shall be entitled to receive a Retirement Allowance equal to the Retirement Allowance calculated in accordance with Section 5.01 provided that:

- (a) The amounts in subsection 3.01 will be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be calculated consistent with the actuarial reduction applied to the benefit under the Astro Pension Plan; and

(b) The actual benefits under the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate will be determined according to the applicable terms of such plan(s) at the Former Covered Executive's date of termination of employment with the Corporation and its Affiliates.

Payment of the Spouse's benefit will commence on the later of (1) first day of the month following the Former Covered Executive's date of death, (2) the Annuity Starting Date (as defined under the Astro Pension) elected by the surviving Spouse, or (3) the first date the surviving Spouse receives payment of the death benefit under the Astro Pension Plan.

This monthly amount is payable to the Spouse for 360 monthly payments or until the death of the Spouse, whichever occurs first.

ARTICLE VI  
DISABILITY BENEFITS

6.01 Disabled Covered Executives. A Covered Executive who is receiving benefits under a long-term disability benefit plan designated by the Corporation shall continue to be a Covered Executive. Such Covered Executive's Covered Service shall continue to accrue during the covered disability. The Covered Executive's Final Average Earnings while on disability shall be deemed to be equal to the Final Average Earnings in effect immediately preceding the commencement of the disability.

If the disabled Covered Executive does not return to active employment with the Corporation or any Affiliate, he will be entitled to receive a Retirement Allowance commencing, subject to Section 6.02, on his Normal Retirement Date calculated in accordance with Section 3.01, based on his Final Average Earnings on his date of disability and his Covered Service at his Normal Retirement Date.

6.02 Disability Retirement. A Covered Executive who, while in the employ of the Corporation or any Affiliate and, prior to his Normal Retirement Date:

- (1) incurs a Total and Permanent Disability;
- (2) does not qualify or ceases to qualify for benefits under any salary continuance or long-term disability benefits plan designated by the Corporation, or any applicable Worker's Compensation legislation; and
- (3) retires under the Astro Pension Plan;

will be entitled to receive a Retirement Allowance coincident with the commencement of the payment of his benefit under the Astro Pension Plan. Such Retirement Allowance shall be equal to the amount calculated in accordance with Section 3.02 based on his Final Average Earnings on his date of disability and his Covered Service at his date of retirement.



6.03 Applicable Provisions. The provisions of Sections 3.03 and 3.04 apply to Retirement Allowances paid under Article VI, with such wording changes as may be necessary. However, the provisions of Article V shall apply when a disabled Covered Executive dies prior to commencement of his Retirement Allowance.

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ARTICLE VII  
ADMINISTRATION

The Corporation is the Administrator of the Plan. The Administrator shall be responsible for the general administration of the Plan and shall perform all administrative functions and shall interpret, construe and apply the Plan provisions in accordance with its terms. The Corporation as Administrator may establish, adopt or revise rules and regulations as it deems necessary or advisable for the administration of the Plan. The Corporation may consult with and rely upon the advice of such counsel, actuaries and other advisors as it shall see fit.

ARTICLE VIII  
AMENDMENT OR TERMINATION OF THE PLAN

It is the intention of the Corporation in establishing the Plan that it should operate to the indefinite future. The Corporation does however, reserve the sole right to terminate the Plan at any time. The Corporation further reserves the right in its sole discretion to amend the Plan in any respect; provided, however, that no such amendment that reduces the value of the benefits therefore accrued by the Covered Executive shall be effective unless the Covered Executive consents to such amendment in writing.

In the event of termination of the Plan, the value of the benefits accrued by the Covered Executive at the time of termination will be determined assuming the Astro Pension Plan and all other qualified retirement plans of the Corporation and its Affiliates are terminated at the same time. Any amendment or termination shall be made pursuant to a resolution of the Board of Directors of the Corporation and shall be effective as of the date specified in such resolution.

ARTICLE IX  
CLAIMS REVIEW PROCEDURE

9.01 Denial of Benefits. If a Retirement Allowance under the Plan is wholly or partially denied, notice of the decision shall be furnished to the Covered or Former Covered Executive or Spouse (claimant) as the case may be by the Administrator within a reasonable period of time after such decision is reached.

9.02 Notice. Any claimant who is denied a claim for Benefits shall be furnished written notice setting forth:

- (a) the specific reason or reasons for the denial;
- (b) specific reference to the pertinent provision of the Plan upon which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim; and
- (d) an explanation of the claim review procedure under the Plan.

9.03 Appeals Procedure. In order that a claimant may appeal a denial of a claim, the claimant or the claimant's duly authorized representative may:

- (a) request a review by written application to the Administrator, or its designate, no later than 60 days after receipt by the claimant of written notification of denial of a claim;
- (b) review pertinent documents; and
- (c) submit issues and comments in writing.

9.04 Review. A decision on review of a denied claim shall be made not later than 60 days after receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered within a reasonable period of time, but not later than 120 days after receipt of a request for review. The decision on review shall be in writing and shall include the specific reason(s) for the decision and the specific reference(s) to the pertinent provisions of the Plan on which the decision is based.

ARTICLE X  
GENERAL

10.01 No Employment Rights. Nothing herein shall constitute a contract of continuing employment or in any manner obligate the Corporation to continue the service of a Covered Executive, or obligate a Covered Executive to continue in the service of the Corporation, and nothing herein shall be construed as fixing or regulating the compensation paid to Covered Executive.

10.02 No Claim Against the Company. Neither a Covered Executive nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of the Corporation whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which the Corporation, in its sole discretion, may set aside in anticipation of a liability hereunder. Any trust which is created in connection with this Plan or any agreement shall provide that the assets of the trust are subject to the claims of the Corporation's general creditors. A Covered Executive shall have only a Contractual right to the amounts, if any, payable hereunder unsecured by any asset of the Corporation.

10.03 Incompetence. If the Administrator determines that any person entitled to any payment hereunder is incompetent by reason of any physical or mental disability, and consequently unable to give a valid receipt, the Administrator may cause any payment due to such person to be made to another person for his benefit, without responsibility on the part of the Administrator to follow the application of such funds. Payment made pursuant to this section 10.03 shall operate as a complete discharge of the responsibility of the Administrator.

10.04 Nonassignability. Neither a Covered Executive nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgements, alimony or separate maintenance owed by a Covered Executive or any other person, nor be transferable by operation of law in the event of a Covered Executive's or any other person's bankruptcy or insolvency.

10.05 Continuance of Payments. The payment of a Retirement Allowance to a Covered Executive or Former Covered Executive, or to his surviving Spouse, is subject to satisfactory proof of the existence of a Covered Executive or Former Covered Executive, or his surviving Spouse, as the case may be, as may be required from time to time by the Administrator.

10.06 Notice. Any notice required or permitted to be given to the Administrator of the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Corporation, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification.

10.07 Gender and Number. Wherever appropriate herein, the masculine may mean the feminine and the singular may mean the plural or vice versa.

10.08 Corporate Successors. The Plan shall not be automatically terminated by a transfer or sale of assets of the Corporation or the merger or consolidation of the Corporation into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VIII.

10.09 Unclaimed Benefits. Each Covered Executive shall keep the Corporation informed of his current address and the current address of his Spouse. The Corporation shall not be obligated to search for the whereabouts of any person. If the location of a Covered Executive is not made known to the Corporation within three (3) years after the date on which payment of the Covered Executive's Retirement Allowance may first be made, payment may be made as though the Covered Executive had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Covered Executive, the Corporation is able to locate any surviving Spouse of the Covered Executive, then the Corporation shall have no further obligation to pay any benefit hereunder to such Covered Executive or surviving Spouse or any other person and such benefit shall be irrevocably forfeited.

10.10 Withholding; Employment Taxes. To the extent required by the law in effect at the time payments are made, the Corporation shall withhold from payments made hereunder any taxes required to be withheld by the Federal or any state or local government.

10.11 Validity. In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

10.12 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of California.



**NORTHROP GRUMMAN 2002 ANNUAL INCENTIVE PLAN**  
**INCENTIVE COMPENSATION PLAN (for NON-SECTION 162(m) OFFICERS)**  
**PERFORMANCE ACHIEVEMENT PLAN**  
**INCENTIVE MANAGEMENT ACHIEVEMENT PLAN**

SECTION I

PURPOSE

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

- The Incentive Compensation Plan (ICP)
- The Performance Achievement Plan (PAP)
- The Incentive Management Achievement Plan (IMAP).

SECTION II

DEFINITIONS

1. COMPANY - Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.
2. CODE – The Internal Revenue Code of 1986, as amended from time to time.
3. COMMITTEE - The Compensation and Management Development Committee of the Board of Directors of the Company.
4. INCENTIVE COMPENSATION – Awards payable under these plans.
5. PARTICIPANT – An employee of the Company granted or eligible to receive Incentive Compensation award under one of these Plans.
6. PERFORMANCE CRITERIA – The performance criteria is a weighted combination of various financial and non-financial factors approved by the Committee for the Performance Year.

7. PERFORMANCE YEAR – The year with respect to which an award of Incentive Compensation is calculated and paid.

8. PLAN – Any of the following plans, individually or in combination: the Incentive Compensation Plan (ICP); the Performance Achievement Plan (PAP); and/or the Incentive Management Achievement Plan (IMAP).

9. SECTION 162(m) OFFICER – An employee who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the 2002 Incentive Compensation Plan for any Performance Year.

10. YEAR - The fiscal year of Northrop Grumman Corporation.

### SECTION III PARTICIPATION

Employees may be eligible for Incentive Compensation under one of the Northrop Grumman incentive Plans. Several factors are taken into consideration when determining in which Plan an employee may be eligible to participate:

1. Incentive Compensation Plan (ICP):

a. Employees eligible to receive Incentive Compensation under this Plan are elected corporate officers of the rank of Vice President and above and the Presidents of those consolidated subsidiaries that the Committee determines to be significant in the overall corporate operations that are not Section 162(m) Officers for the Performance Year. If an executive receives or is eligible to receive an Incentive Compensation award under the 2002 Incentive Compensation Plan for 162(m) Officers, then the executive will not be eligible and shall not receive an Incentive Compensation award under this Plan.

b. Directors, as such, shall not participate in this Plan, but the fact that an elected corporate officer or subsidiary President is also a Director of the Company shall not prevent participation.

2. Performance Achievement Plan (PAP):

a. Employees eligible to receive Incentive Compensation awards under this Plan are Appointed Vice Presidents, senior management as well as high-level individual contributors who are in a position to make measurable and significant contributions to the success of the Company.

b. At the beginning of or prior to a Performance Year, the Company’s CEO approves the number of Participants to be eligible in this Plan. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance, and their potential impact on achievement of business unit and the Company goals.

c. Participation in this Plan during any Performance Year does not imply nor guarantee participation in the Plan in future years.

### 3. Incentive Management Achievement Plan (IMAP):

a. Employees eligible to receive Incentive Compensation awards under this Plan include middle management and individual key contributors (employees normally in a position that customarily perform quasi-management or team leadership duties). In addition, employees may be eligible to participate in this Plan if they have specific individual goals that directly contribute to the attainment of their respective business unit and operating goals or if the person is a “high performing” employee.

b. At the beginning of or prior to a Performance Year, the Company’s CEO approves the number of Participants to be eligible in this Plan. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance and their potential impact on achievement of business unit and the Company goals.

c. Participation in this Plan during any Performance Year does not imply nor guarantee participation in the Plan in future years.

### 4. Non-Duplication of Awards

a. A Participant may not receive an Incentive Compensation award under more than one of the above Plans for the Performance Year. The only exception to this is in the event that an individual is a Participant in a particular Plan for a portion of the Performance Year and then is selected to participate in one of the other Plans for the remainder of that Performance Year. In this event, an individual may receive pro-rated awards based on the time the individual participated in each Plan.

b. A Participant will not be eligible to receive any Incentive Compensation award from any of these Plans if the employee is a Participant in the Company’s 2002 Incentive Compensation Plan for 162(m) Officers.

### 5. Death, Disability, or Retirement

A Participant may be eligible to receive a pro-rated Incentive Compensation award in the event of the employee’s death, disability, or retirement. In the case of a deceased Participant, such Incentive Compensation award will be paid to the Participant’s estate.

## 6. Employment Status

Except as provided in 5 (see above), in order to be eligible to receive a payment from these plans, a Participant must be an active employee of the Company as of December 31 of the plan year unless an exception is approved in writing by the Company's Chief Human Resources Officer.

### SECTION IV GOAL SETTING AND PERFORMANCE CRITERIA

Goal setting and performance planning are essential elements of Plan administration. This requires establishing Performance Criteria, such as annual goals, goal weights, and performance measures. Except as provided in the Plan, the Committee approves annual business and financial goals for the Company no later than the end of the first quarter of the annual performance period.

#### 1. Corporation Goals

For the Performance Year - 2002 and for all future Performance Years until otherwise determined by the Committee, financial and non-financial objectives may, in the sole discretion of the Committee, will be established.

Refer the Appendix A for the specific Performance Year Goals approved by the Committee.

##### a) Financial Measures

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

##### b) Supplemental Goals

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

## 2. Individual Goals

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

### SECTION V

#### PERFORMANCE DETERMINATION

1. At the end of the Performance Year the CEO evaluates the performance of each of the operating units and that of the overall Company against the financial and business goals established at the beginning of the Performance Year and submits his assessment to the Committee.
2. The CEO's final evaluation of performance (the "Unit Performance Factor" or "UPF") is stated numerically and is a performance multiplier for individual incentive targets. The UPF will vary from 0.0 to a maximum as approved by the Committee.
3. The Committee, in its sole discretion, after taking into account its appraisal of the overall performance of the Company in the attainment of such predetermined financial and non-financial objectives, may either increase or decrease the Company Unit Performance Factor for these Plans.

### SECTION VI

#### INCENTIVE COMPENSATION APPROPRIATIONS

1. The amount appropriated for all three Plans for a Performance Year is based on the CEO's determination of the Unit Performance Factor and applied to the individual incentive targets of Participants. The performance-adjusted targets are aggregated into the "Appropriated Incentive Compensation" for the Performance Year.
2. In no event shall Incentive Compensation payable to Participants for a Performance Year exceed the Appropriated Incentive Compensation under the Plans for such Performance Year unless the Committee, in its sole discretion, deems that performance was greater than CEO's evaluation in the Unit Performance Factor in accordance with paragraph 3 of SECTION V.

3. Any Appropriated Incentive Compensation for a Performance Year, which is not actually distributed to the Participants as awards for such year, shall be forfeited.

SECTION VII  
INCENTIVE COMPENSATION AWARDS

1. Individual Award Factors
  - a) Target Award Percentage – is established annually and is a percentage of annual aggregate salary that reflects the varying impact of participant’s positions on business results. Generally Vice Presidents will have higher Target Award Percentages than senior middle managers and so forth.
  - b) Individual Performance – Prior to the submission of recommended Incentive Compensation awards, each Participant will be evaluated by his management in relation to the Participant’s achievement of predetermined individual goals and his relative contribution during the Performance Year compared to other participants to the success or profit of the Company. This assessment of performance (the “Individual Performance Factor” or “IPF”) is stated numerically and is a performance multiplier for individual incentive targets. The IPF may range from 0 to 1.5.
  - c) Both the IPF and the UPF are multipliers for the individual participant’s Target Award Percentage to determine the Incentive Compensation award.
2. ICP Awards:
  - a) The performance criteria established in accordance with SECTION IV on which all Incentive Compensation awards under the Plans are based shall first apply in the Performance Year 2002, but such performance criteria and any Incentive Compensation awards based thereon shall be conditional upon the Committee approving the Plan, the Performance Criteria, and performance goals stated herein.
  - b) The Committee shall review the CEO’s recommendations and make the final determination of each individual ICP Participant’s Incentive Compensation award for the Performance Year.
3. PAP and IMAP Awards:
  - a) Prior to the payment of any Incentive Compensation awards for a Performance Year, the CEO, or his delegate, may in his sole discretion, adjust or reduce to zero recommended amounts of Incentive Compensation awards to all or any of the Participants.

- b) The CEO or his delegate shall determine the amount of any adjustment in a Participant's Incentive Compensation award on the basis of such factors as he deems relevant, and shall not be required to establish any allocation or weighting component with respect to the factors he considers.

## SECTION VIII

### ADMINISTRATION OF THE PLANS

1. Incentive Compensation Plan (ICP): The Committee shall be responsible for the administration of the Plan. The Committee shall:

a. Interpret the Plan, make any rules and regulations relating to the Plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the Plan, after such investigation or hearing as the Committee may deem appropriate.

b. As soon as feasible after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the performance of each Participant and determine the amount of each Participant's individual Incentive Compensation award, if any, with respect to that Performance Year.

c. Have sole discretion in determining Incentive Compensation awards under the Plan, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the CEO of the Company and others whom it may designate.

d. Any decisions made by the Committee under the provisions of this SECTION VIII shall be conclusive and binding on all parties concerned.

2. PAP and IMAP: The CEO shall be responsible for the administration of these plans. The CEO shall:

a. Interpret the Plans, make any rules and regulations relating to the Plans, and determine factual questions arising in connection with the Plans.

b. As soon as feasible after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the recommended awards of selected Participants, as established by the CEO, to determine if the award is appropriate with respect to that Performance Year, making any adjustments as he deems necessary and approving each award.

c. Review and approve the total Incentive Compensation award expenditure of each sector and the Company overall.

d. Any decisions made by the CEO under the provisions of this SECTION VIII shall be conclusive and binding on all parties concerned.

SECTION IX  
METHOD OF PAYMENT OF INCENTIVE  
COMPENSATION TO INDIVIDUALS

1. ICP Payments:

a. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash or in common stock of the Company ("Northrop Grumman common stock") or partly in cash and partly in Northrop Grumman common stock, as the Committee may determine.

b. Payments in cash may be made in a lump sum with respect to an Incentive Compensation award for a Performance Year, or in installments, as the Committee may determine. In either event, the Committee may impose such conditions, including forfeitures and restrictions as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

c. Payments in Northrop Grumman common stock may be made in full with respect to an Incentive Compensation award for a Performance Year, or in installments, as the Committee may determine. In either event, the Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

d. In making awards of Northrop Grumman common stock, the Committee shall first determine all Incentive Compensation awards in terms of dollars. The total dollar amount of all Incentive Compensation awards for a particular year shall not exceed the Appropriated Incentive Compensation for that Performance Year under this Plan. After fixing the total amount of each Participant's Incentive Compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman common stock, the dollar amount of the Incentive Compensation award so to be paid shall be converted into shares of Northrop Grumman common stock by using the fair market value of such stock on the date of the award. "Fair Market Value" shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.

e. If an Incentive Compensation award is paid in Northrop Grumman common stock, the number of shares shall be appropriately adjusted for any stock splits, stock



dividends, re-capitalization or other relevant changes in capitalization effective after the date of award and prior to the date as of which the Participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the Participant as the record owner of the shares.

f. Northrop Grumman common stock issued in payment of Incentive Compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.

g. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement. Any other awards the payment of which has been deferred, in whole or in part, shall be paid as determined by the Committee.

h. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

i. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interests whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

## 2. PAP and IMAP Payments:

a. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash.

b. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

c. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

## SECTION X AMENDMENT OR TERMINATION OF PLANS

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

SECTION XI  
EFFECTIVE DATE

These Plans shall be effective for Performance Years commencing with and following 2002 and shall stay in effect until amended, modified or terminated by the Committee. The provisions of these Plans, together with those of the 2002 Incentive Compensation Plan for 162(m) Officers, shall supersede and replace those of prior plan documents.

SECTION XII  
MISCELLANEOUS

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

APPENDIX A  
2004 COMPANY GOALS

The Compensation and Management Development Committee approved Goals and weights for the Annual Incentive Plan (AIP) during their February 2003 meeting.

Following are the specific goals and weights for the calendar year are:

<u>Performance Goals</u>	<u>ICP Weighting</u>	<u>PAP &amp; IMAP Weighting</u>
Corporation WEV <sup>1</sup> Improvement	50%	30%
Sector WEV <sup>1</sup> (President specific or sales weighted)	10%	30%
Supplemental Goals	20%	20%
Corporation Net Debt Reduction	20%	20%

Each year after taking into account the recommendations of the CEO, the Committee establishes both a stated minimum threshold and target level of WEV performance together with a maximum performance level for each goal. For performance below threshold, no award for WEV improvement is earned.

<sup>1</sup> Warranted Equity Value ("WEV") is a formulaic estimate of shareholder return for a given period based upon predicted annual cash flows derived by a mathematical relationship among several financial variables, including net income after tax, cost of capital, debt, and assets employed. Ordinarily, before credit for performance is earned for WEV improvement, the corporation must first earn its cost of capital; notwithstanding this, the Committee, at its sole discretion, may establish a lower threshold for a specific performance period.

NORTHROP GRUMMAN

SAVINGS EXCESS PLAN

(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

ARTICLE I DEFINITIONS	2
1.1 Definitions	2
ARTICLE II PARTICIPATION	6
2.1 In General	6
2.2 Disputes as to Employment Status	6
ARTICLE III DEFERRAL ELECTIONS	7
3.1 Elections to Defer Compensation	7
3.2 Contribution Amounts	7
3.3 Investment Elections	8
3.4 Investment Return Not Guaranteed	8
ARTICLE IV ACCOUNTS	9
4.1 Accounts	9
4.2 Valuation of Accounts	9
4.3 Use of a Trust	9
4.4 Plan Mergers	9
ARTICLE V VESTING AND FORFEITURES	10
5.1 In General	10
5.2 Exceptions	10
ARTICLE VI DISTRIBUTIONS	11
6.1 Distribution of Contributions	11
6.2 Payments Not Received At Death	12
6.3 Inability to Locate Participant	12
6.4 Committee Rules	12
6.5 Merged Plan Distributions	12
ARTICLE VII ADMINISTRATION	14
7.1 Committees	14
7.2 Committee Action	14
7.3 Powers and Duties of the Administrative Committee	15
7.4 Powers and Duties of the Investment Committee	15
7.5 Construction and Interpretation	16
7.6 Information	16
7.7 Committee Compensation, Expenses and Indemnity	16
7.8 Disputes	16
7.9 Plan Mergers	17
ARTICLE VIII MISCELLANEOUS	19
8.1 Unsecured General Creditor	19
8.2 Restriction Against Assignment	19
8.3 Restriction Against Double Payment	19
8.4 Withholding	19
8.5 Amendment, Modification, Suspension or Termination	20
8.6 Governing Law	20

8.7	Receipt and Release	20
8.8	Administrative Delays	20
8.9	Disputes About Payee	20
8.10	Incorrect Payment of Benefits	21
8.11	Payments on Behalf of Persons Under Incapacity	21
8.12	Limitation of Rights and Employment Relationship	21
8.13	Headings	21

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## INTRODUCTION

The Northrop Grumman Savings Excess Plan (the "Plan") is hereby amended and restated effective as of October 1, 2004, except as otherwise provided. This restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

Northrop Grumman Corporation (the "Company") established this Plan for participants in the Northrop Grumman Savings Plan who exceed the limits under sections 401(a)(17) or 415(c) of the Internal Revenue Code. This Plan is intended as an excess benefit and unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA.

The Plan was originally effective January 1, 2004. It was amended effective as of December 10, 2004 to merge two similar plans, the Northrop Grumman Benefits Equalization Plan and the Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan, into the Plan.

**ARTICLE I**

**DEFINITIONS**

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.
- (b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.
- (c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).
- (d) "Basic Contributions" shall have the same meaning as that term is defined in the NGSP.

(e) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

(3) No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant



to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(4) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(5) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(h) "Committees" shall mean the Committees appointed as provided in Article VII.

(i) "Company" shall mean Northrop Grumman Corporation and any successor.

(j) "Company Contributions" shall mean contributions by the Company to a Participant's Account.

(k) "Compensation" shall be Compensation as defined by Section 5.01 of the NGSP.

(l) "Disability" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(m) "Effective Date" shall be January 1, 2004. This amendment and restatement is effective October 1, 2004.

(n) "Eligible Employee" shall mean any Employee who meets the following conditions:

(1) he or she is a participant in the NGSP;

(2) he or she is classified by the Affiliated Companies as an Employee and not as an independent contractor; and

(3) he or she meets any additional eligibility criteria set by the Administrative Committee.

Additional eligibility criteria established by the Administrative Committee may include specifying classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(o) "Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

(p) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(q) "Initial Election Period" shall mean:

(1) in the case of an Employee who becomes an Eligible Employee upon the Effective Date of the Plan and who is entitled to participate under Article II, the period prior to the Effective Date of the Plan designated by the Administrative Committee;

(2) in the case of a newly hired Employee (other than an Employee described in (3) below) who becomes an Eligible Employee after the Effective Date and who is entitled to participate under Article II, the 30-day period following the date on which the Employee first becomes an Eligible Employee;

(3) in the case of an individual who becomes an Employee as a result of a merger or acquisition, who becomes an Eligible Employee after the Effective Date, and who is entitled to participate under Article II, the period beginning on the date on which the Employee first becomes an Eligible Employee and ending on the date prescribed by the Administrative Committee for Eligible Employees affected by the merger or acquisition; and

(4) in the case of an Employee who becomes an Eligible Employee because of a raise or promotion after the Effective Date and who is entitled to participate under Article II, the next Open Enrollment Period.

(r) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VII.

(s) "NGSP" means the Northrop Grumman Savings Plan.

(t) "Open Enrollment Period" means the period designated by the Administrative Committee for electing deferrals for the following Plan Year.

(u) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

(v) "Payment Date" shall mean:

(1) for distributions upon early termination under Section 6.1(a), a date after the end of the month in which termination of employment occurs; and

(2) for distributions after Retirement, Disability or death under Section 6.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable.

The exact date in each case will be determined by the Administrative Committee to allow time for administrative processing.

(w) "Plan" shall be the Northrop Grumman Savings Excess Plan.

(x) "Plan Year" shall be the calendar year.

(y) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.

(z) "Supplemental Contributions" shall have the same meaning as that term is defined in the NGSP.

**ARTICLE II**

**PARTICIPATION**

**2.1 In General**

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan.

(b) Anyone who becomes an Eligible Employee after the Effective Date will be entitled to become a Participant during his or her Initial Election Period or any subsequent Open Enrollment Period.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan or is specified as ineligible to participate by the Administrative Committee.

**2.2 Disputes as to Employment Status**

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary plan description and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees.

**ARTICLE III**

**DEFERRAL ELECTIONS**

**3.1 Elections to Defer Compensation**

(a) **Initial Elections.** Each Participant may elect to participate in the Plan by filing an election with the Administrative Committee no later than the last day of his or her Initial Election Period. A Participant's election may be made in writing, electronically, or as otherwise specified by the Administrative Committee. Such election shall specify the Participant's rate of deferral for contributions to the Plan. The maximum deferral rate for any year is the maximum percentage of Compensation that the Participant may defer under the NGSP, without regard to the limits of Code section 401(a)(17).

(b) **Subsequent Elections.** A Participant must elect to participate in the Plan by filing a new election in the Open Enrollment Period for each subsequent Plan Year. An election to participate for a Plan Year is irrevocable.

(c) **Committee Rules.** All elections must be made in accordance with the rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

**3.2 Contribution Amounts**

(a) **Participant Contributions.** A Participant may contribute under the Plan the product of his or her elected rate of deferral under this Plan and the amount by which his or her Compensation exceeds the Code section 401(a)(17) limit.

(b) **Company Contributions.** The Company will make Company Contributions to a Participant's Account if a Participant's matching contributions under the NGSP are limited as provided in (1). In addition, the Company will make a Company Contribution under (2) below if the conditions in that paragraph apply.

(1) **In General.** The Company will make a Company Contribution equal to the matching contribution rate for which the Participant is eligible under the NGSP for the Plan Year multiplied by the amount of the Participant's contributions under subsection (a).

(2) **Make-Up Contributions for Contribution Limitation.** If a Participant's Basic Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the Participant's Basic Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of matching contributions for which the Participant would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of matching contributions made for the Plan Year under the NGSP. This paragraph applies only if the Participant reaches the Code section 401(a)(17) compensation limit

and only to the extent that contributions are based upon Participant compensation up to that limit. Paragraph (1) above applies to contributions based on compensation exceeding the section 401(a)(17) limit.

### 3.3 Investment Elections

(a) The Investment Committee will establish a number of different investment funds or other investment options for the Plan. The Investment Committee may change the funds or other investment options from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing account balances will be invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be invested, contributions will be invested according to the Participant's investment election for contributions under the NGSP. If a Participant elected one or more investment options under the NGSP that are not available under this Plan, the portion of the Participant's contribution that would have been invested in those options will be invested on a pro-rata basis in the investment funds that the Participant elected that are available under this Plan.

(c) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules that may include, among other matters, limitations on the amounts that may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe valuation rules for purposes of investment elections and transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses. The Administrative Committee may change the methods it uses for valuation from time to time.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change investment elections and make transfers.

(4) The Administrative Committee may change its rules and procedures from time to time and without prior notice to Participants.

### 3.4 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

ARTICLE IV

ACCOUNTS

4.1 Accounts

The Administrative Committee shall establish and maintain a record keeping Account for each Participant under the Plan.

4.2 Valuation of Accounts

The valuation of Participants' record keeping Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(a) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(b) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(c) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

4.3 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies under the Plan. Any trust set up will be a rabbi trust.

4.4 Plan Mergers

(a) Merged Plans. As of their respective effective dates, the plans listed in (b)(the "Merged Plans") are merged into this Plan. All amounts from those plans that were merged into this Plan are held in their corresponding Accounts.

(b) Table.

<u>Name of Merged Plans</u>	<u>Merger Effective Dates</u>	<u>Merged Account Names</u>
Northrop Grumman Benefits Equalization Plan	December 10, 2004	NG BEP Account
Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan	December 10, 2004	S & MS Deferred Compensation Account

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ARTICLE V

**VESTING AND FORFEITURES**

5.1 In General

A Participant's interest in his or her Account will be nonforfeitable.

5.2 Exceptions

The following exceptions apply to the vesting rule:

- (a) Forfeitures on account of a lost payee. See Section 6.4.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses paid from a Participant's Account.
- (e) Investment losses.



ARTICLE VI

**DISTRIBUTIONS**

6.1 Distribution of Contributions

(a) Distributions Upon Early Termination.

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly or annual installments over a fixed number of whole years not to exceed 15 years, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so specifies.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date unless an optional form of benefit has been specified pursuant to Section 6.1(b)(1).

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her Initial Election Period from among those listed below:

(A) A lump sum distribution on the Participant's Payment Date.

(B) Quarterly installments over a period of at least 1 and no more than 15 years beginning on the Participant's Payment Date.

(C) Annual installments over a period of at least 1 and no more than 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service under this Section, the most recently elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(5) The Participant's Account shall continue to be adjusted pursuant to Section 4.2 of the Plan until all amounts credited to his or her Account under the Plan have been distributed.

#### 6.2 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

#### 6.3 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required Payment Date, the amount allocated to the Participant's Deferral Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

#### 6.4 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

#### 6.5 Merged Plan Distributions

(a) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants' Accounts attributable to the Merged Plans are made under the foregoing provisions of Article VI, except as provided in this Section.

(b) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants' NG BEP and S & MS Deferred Compensation Accounts are made under the foregoing provisions of Article VI, except as provided in this Section.

(1) Amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account shall be paid out in accordance with elections made under the Merged Plans.

(2) The Participant's "Payment Date" for amounts in the NG BEP Account and the S & MS Deferred Compensation Account shall be deemed to be the end of January following the Participant's termination of employment.

(3) The reference to \$50,000 in the above provisions of Article VI shall be deemed to be \$5,000 with respect to amounts in the NG BEP Account and the S & MS Deferred Compensation Account.

(4) The Administrative Committee shall assume the rights and responsibilities of the Directors/Committee with respect to determining whether a Participant's NG BEP Account may be paid out in the event of hardship or in a form other than the automatic form of payment.

(5) The Administrative Committee shall assume the rights and responsibilities of the Committee or Special Committee with respect to determining whether a Participant's S & MS Deferred Compensation Account may be paid out in the event of hardship or in a form other than the automatic form of payment.

(6) For purposes of determining the time of payment of a Participant's NG BEP Account, a Participant's employment will not be deemed to have terminated following the Participant's layoff until the earlier of the end of the twelve-month period following layoff (without a return to employment with the Affiliated Companies) or the date on which the Participant retires under any pension plan maintained by the Affiliated Companies.

(7) A Participant's S & MS Deferred Compensation Account shall be paid to the Participant no later than the January 5 next preceding the Participant's 80<sup>th</sup> birthday.

(8) In no event will payments of amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account be accelerated or deferred beyond the payment schedule provided under the Merged Plans.

## ARTICLE VII

### ADMINISTRATION

#### 7.1 Committees

(a) An Administrative Committee, comprised of one or more persons, shall be appointed by and serve at the pleasure of the Compensation and Management Development Committee (the "Compensation Committee") of the Board. The number of members comprising the Administrative Committee shall be determined by the Compensation Committee, which may from time to time vary the number of members. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Compensation Committee. The Compensation Committee may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Administrative Committee shall be filled promptly by the Compensation Committee.

(b) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

#### 7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of the Committees may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committees then in office. A member of the Committees shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Compensation Committee shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and
- (h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

7.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To select types of investment and the actual investments against which earnings and losses will be measured;
- (b) To oversee the rabbi trust; and
- (c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

7.5 Construction and Interpretation

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

7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the Compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

(a) Claims

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

(b) Claim Decision

Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (A) the specific reason or reasons for such denial; (B) specific references to pertinent provisions of this Plan on which such denial is based; (C) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (D) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (E) the time limits for requesting a review under subsection (c).

(c) Request For Review

Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

(d) Review of Decision

Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing, in a manner calculated to be understood by the Claimant, the decision setting forth the specific reasons for the decision containing specific references to the pertinent provisions of this Plan on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

(e) Limitation on Claims

No action may be brought in court on a claim for benefits under this Plan after the later of:

- (1) Six months after the claim arose, or
- (2) Six months after the decision on appeal under this Section (or six months after the expiration of the time to take an appeal if no appeal is taken).

7.9 Plan Mergers

The following plans have merged into this Plan, effective as of the dates provided in the table below.

- (a) On and after the respective effective dates, amounts merged into this Plan from the merged plans are governed by the terms of this Plan.

(b) Effective as of the dates below, Accounts are established for individuals who, before the merger, had account balances under the merged plans. These individuals will not accrue benefits under this Plan unless they become Participants by virtue of being hired into a covered position with an Affiliated Company, but they will be considered Participants for purposes of the merged accounts. The balance credited to the Participant's merged plan account will, effective as of the date provided in the table below, be invested in accordance with the terms of this Plan.

<u>Name of Merged Plans</u>	<u>Merger Effective Dates</u>
Northrop Grumman Benefits Equalization Plan	December 10, 2004
Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan	December 10, 2004



**ARTICLE VIII**

**MISCELLANEOUS**

**8.1 Unsecured General Creditor**

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

**8.2 Restriction Against Assignment**

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

**8.3 Restriction Against Double Payment**

If a court orders an assignment of benefits despite Section 8.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

**8.4 Withholding**

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes, which are required to be

withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant's Account balance below its dollar value as determined under Section 4.1(b) immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment losses. In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

8.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.8 Administrative Delays

If the amount of any payment cannot be determined by the date it is supposed to be paid, or if it is not possible to make payments on time because the Administrative Committee cannot find the payee, or adequate information is not available to make the distribution, or the payee has failed to file the applicable forms with the Administrative Committee, or because of other legal, financial or administrative obstacles, payments may be made no later than 60 days after the date payment becomes possible.

8.9 Disputes About Payee

In the event that the Administrative Committee determines that there is some uncertainty as to whom any Plan payment is due, the Administrative Committee is authorized to delay payment, seek agreements from the interested parties, make payment to an appropriate judicial forum and allow the court to determine the identity of the proper payee, and/or take any other necessary or appropriate steps to protect the Plan.

8.10 Incorrect Payment of Benefits

If the Administrative Committee determines in its sole discretion that the Plan made an incorrect payment of benefits, or that a correction is necessary or desirable, then:

(a) If the Plan makes an overpayment of the amount of any benefits due any payee under the Plan, the Plan may recover the amounts either by requiring the payee to return the excess to the Plan, by reducing any future Plan payments to the payee, or by any other method deemed reasonable by the Administrative Committee.

(b) If the Plan makes a late payment or an underpayment of the amount of any benefits due any payee under the Plan, correct payment will be made as soon as possible after the late payment or underpayment is discovered.

(c) Any correction may be made to any Account as determined in the sole discretion of the Administrative Committee.

8.11 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

8.12 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

8.13 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human  
Resources and Administrative Officer

**EMPLOYMENT AGREEMENT**

1. **PARTIES:** The Parties to this Employment Agreement (hereafter referred to as the "Agreement") are DONALD C. WINTER (hereafter referred to as "Executive") and NORTHROP GRUMMAN CORPORATION (hereafter referred to as "Northrop Grumman" or "the Company").
2. **EMPLOYMENT:** Northrop Grumman hereby agrees to employ Executive and Executive hereby accepts such employment by Northrop Grumman upon the terms and conditions herein set forth.
3. **TERM:** The Company has entered into an agreement with TRW Inc., an Ohio corporation ("TRW") to effect a transaction (the "Merger") pursuant to which TRW will become a wholly owned subsidiary of the Company. The closing of the Merger (the "Closing") is expected to occur on or about December 11, 2002. The term of this Agreement shall commence as of the date of the Closing (the "Effective Date") if such Closing occurs on or before December 31, 2002 and shall end four years thereafter, unless sooner terminated pursuant to Section 8 or 9 hereof. This Agreement is further subject to approval by the Compensation and Management Development Committee of the Company's Board of Directors. This Agreement shall be of no force or effect if either (a) the Closing does not occur on or before December 31, 2002, or (b) it is not approved by the

4. **POSITION AND DUTIES:** During the period of Executive's employment by Company during the term hereof, Executive shall (a) serve as the Company's Corporate Vice President and President, Missions Systems Sector, (b) shall be principally responsible for the Company's Missions Systems Sector, and (c) shall report to a member of the Company's Office of the Chairman, such member to be determined by the Company's Chief Executive Officer from time to time. Notwithstanding the preceding sentence, the Company may change Executive's title and/or responsibilities from time to time; provided that the Company may not (a) diminish Executive's title, (b) diminish Executive's authority (when viewed in the aggregate), or (c) cause Executive to report to anyone other than a member of the Company's Office of the Chairman. In his capacity as Corporate Vice President and President, Mission Systems Sector, Executive will serve on the Company's Corporate Policy Council.

Executive shall, during the course of his employment by the Company during the term hereof:

- (a) attempt in good faith to do and perform all such acts and duties and furnish such services, all as commensurate with his position, as the Company shall reasonably request, reasonably cooperate with the

Company, and attempt in good faith to do and perform all acts in the ordinary course of the Company's business reasonably necessary and conducive to the performance of his duties hereunder; and

- (b) devote his full time, energy and skill to the business of the Company and to the promotion of the Company's best interests, except for vacations and absences made necessary because of illness or other traditionally approved leave purposes; provided, that the foregoing shall not prevent Executive from managing his and his family's personal investments, being involved in charitable, civic and professional activities (including serving on the boards of directors of not-for-profit organizations) and, with the consent of the Chief Executive Officer, serving on the boards of directors of for-profit entities so long as such activities do not materially interfere with Executive's performance of his duties hereunder.

- 5. **TRW EMPLOYMENT CONTINUATION AGREEMENT:** Executive currently has an Employment Continuation Agreement with TRW (the "ECA"). Executive hereby waives and relinquishes any and all rights and benefits he may have under his ECA, and agrees not to make any claim, now or in the future, for benefits under the ECA. Executive acknowledges that TRW is a third-party beneficiary of this provision. Executive and the Company hereby agree to terminate the ECA in its entirety as of the Effective Date. Executive further acknowledges and agrees that he has no right to retention compensation, or

severance compensation or benefits under any other plan, program, policy or arrangement of TRW, the Company, or either of their respective affiliates with respect to his continuing employment or any termination of employment except as may be expressly provided under this Agreement, Company plans or programs, or at law. Without limiting the generality of the foregoing, Executive agrees that he has no right to any compensation, benefits or other payment under or with respect to any retention and/or severance agreement that he or she may have previously entered into.

TRW and Putnam Fiduciary Trust Company entered into a Rabbi Trust Agreement on or about December 5, 2002. Executive acknowledges and agrees that he is not entitled to any payment or benefit from the trust (the "Trust") formed pursuant to such agreement and the Payment Schedule pursuant to such agreement is hereby so amended. In the event that Executive receives any payment from the Trust, such payment shall offset on a dollar for dollar basis any obligation of the Company to Executive under this Agreement. Executive further acknowledges and agrees that the payment required pursuant to Section 6(b) below may be made from the Trust (in lieu of payment from the Company or TRW) and, in the event such payment is made in full from the Trust, the Company and TRW shall have no further obligation to Executive pursuant to Section 6(b).

6. **COMPENSATION AND BENEFITS:**

- (a) **Base Salary:** Executive's base salary for the course of his employment by the Company during the term hereof shall be no less than \$500,000 per year (pro rated for any period of service less than a full year). Executive's base salary shall not be increased for 2003, but such salary shall be subject to increases (but not decreases) in accordance with the Company's normal salary review process for 2004 and any subsequent year during the course of his employment by the Company during the term hereof.
- (b) **Consideration in Lieu of ECA Payment:** The Company (unless such amount is paid by TRW or by the Trust) shall pay Executive a special bonus of \$4,400,000 within thirty days after the Closing in lieu of any and all rights that Executive may have under the ECA. Such compensation shall not be taken into consideration (for benefit determination purposes or otherwise) under any pension, supplemental pension, savings or other benefit plan or program of the Company or TRW notwithstanding any provision of any such plan or program to the contrary.
- (c) **TRW Incentive Pay:** Executive's 2002 bonus under the TRW Operational Incentive Plan (the "OIP") shall equal \$572,400, and such amount shall be pension eligible under the TRW pension plans. Any portion of such bonus



not paid by TRW shall be paid by the Company no later than January 15, 2003. Executive shall not have any right to receive any new award or accrue any additional benefit under the OIP, the TRW Strategic Incentive Program (the "SIP") or any other TRW incentive program. Any compensation related to the OIP, the SIP or any other TRW incentive program shall not be taken into consideration (for benefit determination purposes or otherwise) under any Company pension, supplemental pension, savings or other benefit plan or program notwithstanding any provision of any such plan or program to the contrary; provided that OIP compensation shall be taken into consideration for purposes of the TRW benefit plans and programs in which Executive participates in accordance with the usual rules of such plans and programs.

- (d) **ICP Bonus:** Commencing on January 1, 2003 and for the balance of the period of Executive's employment by the Company during the term hereof as an elected officer, Executive shall participate in the Company's Incentive Compensation Plan ("ICP"), a bonus plan for elected Company officers. Executive's target bonus under such plan shall be at least 50% of his base salary for the relevant period, provided however, that Executive's actual bonus will be determined in accordance with the terms of the ICP and may be more or less than 50% of his base salary.

(e) **Benefits:** Executive is currently covered by the benefit plans of TRW. Executive shall continue to be covered by the TRW pension and welfare benefit plans until January 1, 2003 (or as soon as administratively practical thereafter that he can be moved into the Company benefit plans). Effective January 1, 2003 or as soon as administratively practical thereafter, Executive shall no longer accrue benefits under the TRW pension plans nor participate in the TRW welfare plans, but rather shall commence participation in the Northrop Grumman welfare plans and commence benefit accruals under the Northrop Grumman pension plans in which Northrop Grumman elected officers who are direct reports to a member of the Company's Office of the Chairman participate. These plans include, but are not limited to, the Northrop Grumman Retirement Plan, the Northrop Grumman Savings and Investment Plan, the Northrop Grumman Deferred Compensation Plan, and three non-qualified supplemental executive retirement plans known as "ERISA 1", "ERISA 2" and the "CPC SERP." As of January 1, 2003, Executive shall be credited with years of vesting service (but not benefit service) under the Northrop Grumman Retirement Plan, the Northrop Grumman Savings and Investment Plan, and the three Company non-qualified supplemental executive retirement plans for his years of service with TRW. Notwithstanding the foregoing, compensation earned on or after January 1, 2003 shall be recognized under the TRW nonqualified Supplementary Retirement Income Plan ("SRIP") for purposes of determining Executive's

benefits thereunder. Executive shall retain all rights under the TRW SRIP (other than the special enhancement provided by the ECA), Benefit Equalization Plan, and Deferred Compensation Plan.

- (f) **Retiree Medical Benefit:** Executive shall be eligible to participate in the Elected Officer Retiree Medical Program on the same terms and conditions as other elected officers of similar status.
- (g) **Stock and Stock Options:** At the next meeting of the Compensation and Management Development Committee of the Company's Board of Directors ("Initial Grant Date"), Executive shall be granted (a) a non-qualified stock option covering 15,000 shares of Company common stock with a per share exercise price equal to the Fair Market Value (as defined in the Guide) of a share of Company common stock on the date of grant, and (b) 8,000 restricted performance stock rights ("RPSRs"). When elected officers of the Company generally are granted equity-based incentives in or around August 2003, if Executive is then employed by the Company, Executive shall be granted (a) a non-qualified stock option covering no less than an additional 15,000 shares of Company common stock with a per share exercise price equal to the Fair Market Value (as defined in the Guide) of a share of Company common stock on the date of grant, and (b) no less than an additional 8,000 RPSRs.

The options and RPSRs granted to Executive shall be awarded under and shall be subject to the terms and conditions of the Company's 2001 Long Term Incentive Stock Plan, as amended from time to time (the "LTISP"), the Guide to Administration for the LTISP, as amended from time to time (the "Guide"), and the grant certificates provided to Executive.

The foregoing share and RPSR numbers are subject to adjustment for stock splits and similar events in accordance with the adjustment provisions of the LTISP.

Each option granted to Executive on the Initial Grant Date shall have a maximum term of ten years and shall vest in four substantially equal installments, with an installment becoming vested, subject to Executive's continued employment through the respective vesting date, on each of the first through fourth anniversaries of the respective date of grant of the option.

The RPSRs granted as of the Initial Grant Date shall have a January 1, 2003 through December 31, 2005 performance period. Performance targets for the grant shall be established by the Company.

The options and RPSRs granted in or around August 2003 shall be on terms otherwise similar to the terms applicable to other Company elected officer grants made at that time

Notwithstanding any contrary death, Disability (as defined in the Guide), or involuntary separation vesting or RPSR payment provision that may customarily apply with respect to awards under the LTISP, the following special vesting and RPSR payment provisions shall apply with respect to Executive's option and RPSR grants made as of the Initial Grant Date (but not the contemplated August 2003 awards or any other subsequent award) in the event that Executive's employment terminates in the circumstances described: in the event that Executive's employment with the Company terminates due to Executive's death or Disability (as defined in the Guide) or in the event that Executive's employment is terminated by the Company other than for Cause (as defined in Section 8 or by Executive for Good Reason (as defined in Section 9), then (a) the portion of Executive's options granted on the Effective Date that are then outstanding and otherwise unvested shall thereupon become fully vested (but such options shall otherwise be subject to any limited post-termination exercise period that may apply), and (b) Executive's RPSRs granted on the Effective Date shall be paid in accordance with their usual terms as though Executive's employment by the Company had not terminated (without pro ration) except that the 30% minimum payment provisions

applicable to certain RPSRs shall not apply (accordingly, no payment of such RPSRs shall be made unless and until payments with respect to such RPSRs are made to participants who continue to be employed by the Company).

- (h) **Gross-Up:** In the event that any compensation or benefits paid to Executive pursuant to this Agreement or by TRW or from the Trust are subject to Excise Tax (as defined in Exhibit B hereto) as a result of the Merger, then the Gross-Up Provisions of Exhibit B shall apply. This provision shall survive the termination of this Agreement.
- (i) **New CIC Agreement:** Executive shall be provided with a March 2000 Special Agreement with the Company providing the same protection for Executive in the event of a change in control (as defined in such agreement) of the Company as is provided to other elected officers of the Company. Consistent with the terms of such Special Agreement, the Merger does not constitute a change in control pursuant to such Special Agreement.

7. **PERQUISITES:** For the course of his employment by the Company during the term hereof, Executive shall be eligible for the perquisites provided to Company officers who are direct reports to a member of the Company's Office of the

Chairman. The perquisites currently provided are listed on Appendix A of this Agreement.

8. **TERMINATION OF EMPLOYMENT BY THE COMPANY:** The Company shall have the right to terminate Executive's employment at any time, with or without cause, upon giving at least 14 days advance written notice to Executive of the date when such termination shall become effective. If the Company terminates Executive's employment without "Cause" (as that term is defined below), then Executive shall be entitled to participate in the Company's Officer Severance Plan and the Company shall have no further obligation under this Agreement, except for rights under Section 6(b), tax gross-up under Section 6(h), amounts and benefits due under any plan, arrangement or grant (including as provided under Section 6(g)) and rights of indemnification and directors and officers liability insurance under Sections 13 and 14 (the "Protected Rights"). If the Company terminates Executive's employment for Cause, the Company shall have no further obligation to Executive under this Agreement, except for the Protected Rights other than rights under Section 6(b). For purposes of this Section 8 and Section 9(c), "Cause" shall mean the occurrence of either or both of the following: (i) Executive's conviction for committing a felony involving an act of fraud, embezzlement or; or (ii) the willful engaging by Executive in misconduct with regard to the Company having a significant adverse effect on the Company; provided, however, that no act or failure to act on Executive's part shall be considered "willful" unless done, or omitted to be done, by Executive not in good

faith and without reasonable belief that his action or omission was in the best interests of the Company.

9. **TERMINATION OF EMPLOYMENT BY EXECUTIVE OR BY REASON OF EXECUTIVE'S DEATH OR DISABILITY:**

- (a) **Death:** In the event that Executive dies during the term of this Agreement, Executive's employment by the Company shall automatically terminate as of the date of death and the Company shall have no further obligation under this Agreement, except the Protected Rights.
- (b) **Disability:** If Executive's employment terminates by reason of his Disability (as defined in the Guide) during the term of this Agreement, the Company shall have no further obligation under this Agreement, except the Protected Rights.
- (c) **By the Executive:** Executive may terminate his employment at any time by written notice to the Company with or without Good Reason.
  - (i) **Good Reason:** If Executive terminates employment for Good Reason (as defined below), then Executive shall be entitled to participate in the Company's Officer Severance Plan and the Company shall have no further obligation under this Agreement except for the Protected Rights. For purposes of this Section 9(c), "Good Reason" shall mean the occurrence of any of the following: (i) the Company changes Executive's reporting relationship such that he no longer reports to a member of the Company's Office of the Chairman, (ii) the Company materially breaches



its obligations under Section 4 of this Agreement, (iii) the Company relocates Executive's principal place of employment without Executive's prior written consent, or (iv) the Company purports to terminate Executive's employment for Cause (as defined in Section 8 above) when Cause does not, in fact, exist. Prior to exercising his right to terminate for "Good Reason", Executive shall give the Company at least 30 days written notice of his intent to terminate and of the facts which he believes give rise to "Good Reason", and the Company shall have an opportunity to cure during this 30 day period.

(d) **Other:** The Company shall have no further obligation under this Agreement if Executive terminates employment for any other reason, other than the Protected Rights

10. **TRADE SECRETS:** In the course of performing his duties for TRW and for the Company, Executive will receive, and acknowledges that he has received, confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." Executive agrees that he will not, either during his employment or subsequent to the termination of his employment with the Company, directly or indirectly (i) disclose, publish or otherwise divulge any Northrop Grumman or TRW Trade Secret to anyone outside the Company or its affiliates, without prior

written authorization from the Company to do so, except in the good faith performance of his duties or in order to comply with legal process or governmental inquiry, or (ii) use such information in any manner which would adversely affect the business or business prospects of the Company, except in or to comply with legal process or governmental inquiry. Executive further agrees that if, at the time of the termination of his employment with the Company he is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, he will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in the paragraph shall be in addition to any protection afforded to Trade Secrets by law or equity. This Section 10 shall survive any purported termination of this Agreement notwithstanding anything else contained herein to the contrary.

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

management with any such inventions, discoveries, improvements and ideas which he has conceived, made or acquired, and shall, at the request of the Company, make a written disclosure of the same and execute such applications, assignments, and other written instruments as may reasonably be required to grant to the Company sole and exclusive right, title and interest thereto and therein and to enable the Company to obtain and maintain patent, copyright and trademark protection therefore. This Section 11 shall survive any purported termination of this Agreement notwithstanding anything else contained herein to the contrary.

12. **NON-SOLICITATION AND NON-DISPARAGEMENT:** For a period of one year following Executive's termination of employment, Executive shall not, directly or indirectly, through aid, assistance or counsel, on his own behalf or on behalf of another person or entity, solicit for hire or offer to hire any person who was, within a period of six months prior to Executive's termination, employed by the Company. For a period of one year following Executive's termination of employment, neither Executive, on the one hand, nor the Company formally, a member of the Board of Directors of the Company or a member of the Company's Corporate Policy Council, on the other hand, shall, directly or indirectly, with intent to damage the other, issue or communicate any public statement or statement likely to become public that is critical of or damaging to the other (or in the case of the Company, also its officers, directors or employees and, except in a competitive situation if Executive is working for a competitor or a

customer, its products or services). The foregoing shall not be violated by truthful responses to legal process or governmental inquiry. This Section 12 shall survive any purported termination of this Agreement notwithstanding anything else contained herein to the contrary.

13. **INDEMNIFICATION:** The Company hereby covenants and agrees to indemnify Executive and hold him harmless to the fullest extent permitted by law and under the By-laws of the Company against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including attorney's fees), losses, and damages resulting from Executive's good faith performance of his duties and obligations with the Company or with TRW (including service prior to the Effective Date hereof). The Company, within 30 days of presentation of invoices, shall advance to Executive reimbursement of all legal fees and disbursements reasonably incurred by Executive in connection with any potentially indemnifiable matter; provided, however, that in order to receive such advanced fees and disbursements, Executive must first sign an undertaking reasonably satisfactory to the Company that he will promptly repay the Company all advanced fees and disbursements in the event it is finally determined that Executive cannot be indemnified for the matter at issue under applicable law or Company By-laws; and provided further, that Executive shall consult with the Company prior to selecting his counsel and shall make a reasonable effort to select counsel reasonably acceptable to the Company. This provision shall survive the termination of this Agreement.

14. **LIABILITY INSURANCE:** The Company shall cover Executive under directors and officers liability insurance both during and, while potential liability exists (but no less than six years), after the term of this Agreement in the same amount and to the same extent, if any, as the Company covers its other officers and directors.
15. **ASSIGNMENT:** This Agreement is personal to Executive and shall not be assigned by him. However, this Agreement may be assigned by the Company only to any entity succeeding to all or substantially all of the assets or business of the Company, whether by merger, consolidation, acquisition or otherwise (upon which entity the Agreement shall be binding), and only if the Company promptly delivers to Executive a written assumption of the Agreement and the obligations hereunder by such entity.
16. **TAX WITHHOLDING:** The Company shall be entitled to withhold from any amounts payable or pursuant to this Agreement all taxes as legally shall be required (including without limitation United States federal taxes, and any other state, city or local taxes).
17. **SAVINGS CLAUSE:** If any provision under this Agreement or its application is adjudicated to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application.

18. **LEGAL FEES:** The Company shall pay Executive's reasonable legal fees incurred in connection with negotiating this Agreement.
19. **SEVERANCE PLAN:** Any provision of the Company Severance Plan shall not place burdens on Executive with regard to matters of the same nature as those covered by Sections 10, 11 and 12 hereof that are broader than those set forth in such Sections.
20. **ENTIRE AGREEMENT:** This Agreement represents the complete agreement and understanding between Executive and the Company pertaining to the subject matters contained herein, and supersedes all prior agreements or understandings, written or oral, between the Parties with respect to such subject matters; provided that this Agreement does not supersede any trade secret or invention obligations of Executive under any prior agreement. Notwithstanding the foregoing, Executive shall (a) retain all rights to receive his accrued benefits under the TRW SRIP, Benefit Equalization Plan, and Deferred Compensation Plan, in accordance with the terms of those plans (other than any special enhancements to those plans which may be provided for solely under the ECA), (b) be entitled to receive all amounts due to him under the TRW SIP (other than the special enhancement provided for solely under the ECA), and (c) have all of his TRW stock option and restricted stock grants vest, and, to the extent he has not cashed them out, assumed by the Company.

21. **GOVERNING LAW:** This Agreement shall be construed in accordance with and governed by the laws of the State of Virginia.

Dated: 12/12/02

/s/ Donald C. Winter

**Donald C. Winter**

Dated: 12/12/02

/s/ Patricia H. Summers

**Northrop Grumman Corporation**

By: Vice President  
Compensation, Benefits and Executive  
Development

**Exhibit A: Executive Perquisites as of the Effective Date**

**Life and AD&D Insurance**

The noncontributory life insurance coverage provided to you is three times your annual base salary, with a maximum of \$600,000. Accidental death and dismemberment coverage is six times your annual base salary, with a maximum of \$1,000,000.

**Long-term Disability**

Benefit is 65% of base salary, with a maximum of \$15,000 per month, including your Social Security benefit.

**Medical Care**

Provided you have not enrolled in the Safety Net Plan, you and your eligible dependents are covered by a supplemental plan which provides for reimbursement of 100% of allowable reasonable and customary charges, with an annual maximum of \$10,000 per person. You will still be responsible for the deductible and required contributions.

**Dental Care**

Provided you have not enrolled in the Preventive Plan, you are covered by a supplemental plan which provides you and your family with 100% reimbursement of allowable reasonable and customary charges, with an annual maximum of \$2,000. You will still be responsible for the deductible and required contributions.

**Comprehensive Personal Liability**

To help provide financial protection against potentially devastating effects of lawsuits, you have \$5,000,000 comprehensive personal liability coverage to supplement your personal, nonbusiness coverage. There is a minimum personal coverage requirement, as well as a small deductible amount in some cases. Coverage is also extended to lawsuits arising out of ownership of such items as animals, swimming pools, boats, and all registered vehicles, excluding aircraft.

**Executive Physical Program**

Because Northrop Grumman regards the periodic physical examination of key personnel as being important to both the executive and the company, you are entitled to an annual, company-paid, comprehensive physical examination. This examination may be obtained from one of several designated medical centers.

**Company Car/Allowance**

Recognizing that most executives desire to have an attractive, comfortable automobile for their use, you will be paid an annual car allowance (currently \$15,000), in increments with each regular paycheck. This allowance is designed to reimburse you for the cost of a new automobile every three years, plus insurance and maintenance costs. Reimbursements for gasoline and car washes will also be provided.



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### Financial Planning and Income Tax Return Preparation

In order to fully maximize the value of your executive compensation package, and to keep you abreast of current estate planning and related tax considerations, reimbursement will be made for financial planning assistance and income tax return preparation from a reputable firm of your choice. You will be reimbursed up to \$9,000 per year for these services.

### Air Travel

For air travel of two hours or longer, you may fly first class. The company will reimburse you for membership in two airline clubs.

### Clubs

The company will reimburse you for membership (initiation fees, monthly dues, and general club assessments) in two clubs, with an annual maximum of \$5,000.

(The foregoing are only brief summaries of these perquisites. The actual terms of the perquisites are governed by the formal plan documents and Company policies. In the event of any inconsistency between the foregoing summaries and the terms of any applicable plan document or Company policy, the plan document or Company policy will control. The Company must and does reserve the right to modify or eliminate these perquisites and amend the applicable plan documents and Company policy from time to time. To the extent that any perquisite constitutes taxable income to Executive, Executive will be responsible for any resulting tax liability and the Company shall withhold from such perquisite or other compensation such amounts as may be required.)

**Exhibit B: Gross-Up Provisions**

(a) If it shall be determined (as hereafter provided) that any payment or distribution by the Company or TRW to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment") either before or after any purported termination of this Agreement, would be subject to the excise tax imposed by Section 4999 (or any successor thereto) of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to a change in control triggered by the Merger, or any interest or penalties with respect to such excise tax (such excise tax related to a change in control triggered by the Merger, together with any such interest and penalties related thereto, are hereafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"); provided, however, that no Gross-Up Payment shall be made with respect to the Excise Tax, if any, attributable to (i) any incentive stock option, as defined by Section 422 of the Code ("ISO") granted prior to the execution of this Agreement, or (ii) any stock appreciation or similar right, whether or not limited, granted in tandem with any ISO described in clause (i). The Gross-Up Payment shall be in an amount such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of clause (e) below, all determinations required to be made under this Exhibit B, including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") selected by Executive in his sole discretion. Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within 15 calendar days after the date that Executive's employment with the Company terminates, if applicable, or such earlier time or times as may be requested by the Company or Executive. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company shall pay the required Gross-Up Payment to Executive within five business days after receipt of the aforesaid determination and calculations. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial authority not to report any Excise Tax on his federal income tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment to be paid by the Company within such 15 calendar-day period shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 (or any successor thereto) of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 6(e) thereof and Executive thereafter is required to make a payment of any Excise Tax, Executive shall direct the

Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive within three calendar days after receipt of such determination and calculations.

(c) The Company and Executive shall each cooperate with the Accounting Firm in connection with the preparation and issuance of the determination provided for in clause (b) above. Such cooperation shall include without limitation providing the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, that are reasonably requested by the Accounting Firm.

(d) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations provided for in clause (b) above shall be paid by Executive. The Company shall reimburse Executive for his payment of such costs and expenses within five business days after receipt from Executive of a statement therefore and evidence of his payment thereof.

(e) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 10 business days after Executive receives notice of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the earlier of (i) the expiration of the 30 calendar-day period following the date on which it gives such notice to the Company or (ii) the date that any payment of taxes with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

- (i) give the Company any information reasonably requested by the Company relating to such claim;
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;
- (iii) cooperate with the Company in good faith in order effectively to contest such claim; and
- (iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and

shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this clause (e), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conference with the taxing authority in respect of such claim (but Executive may participate therein at his own cost and expense) and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of such contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(f) If, after the receipt by Executive of an amount advanced by the Company pursuant to clause (e) hereof, Executive receives any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of clause (e) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to clause (e) hereof, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

LITTON INDUSTRIES, INC. RESTORATION PLAN 2

Effective April 3, 2001

TABLE OF CONTENTS

Article I - Definitions	1
1.01 Active Participant	1
1.02 Affiliated Companies	1
1.03 Avondale Plan	1
1.04 Board of Directors	1
1.05 Code	1
1.06 Company	1
1.07 ERISA	1
1.08 FSSP	1
1.09 Ingalls Salaried Plan	1
1.10 Participant	1
1.11 Plan	1
1.12 Plan Year	2
1.13 Program	2
1.14 Retirement Plan	2
1.15 Retirement Plan B	2
1.16 Termination of Employment	2
Article II - General Provisions	3
2.01 In General	3
2.02 Forms and Times of Benefit Payments	3
2.03 Beneficiaries and Spouses	4
2.04 Amendment and Plan Termination	4
2.05 Not an Employment Agreement	6
2.06 Assignment of Benefits	6
2.07 Nonduplication of Benefits	7
2.08 Funding	7
2.09 Construction	8
2.10 Governing Law	8
2.11 Actions By Company	8
2.12 Plan Representatives	8
2.13 Number	8
Article III - Lump Sum Election	9
3.01 In General	9
3.02 Retirees Election	9
3.03 Retirees Lump Sum	10
3.04 Actives Election	12

3.05	Actives Lump Sum—Retirement Eligible	13
3.06	Actives Lump Sum—Not Retirement Eligible	15
3.07	Calculation of Lump Sum	15
3.08	Spousal Consent	17
Appendix A - Litton Restoration Program – June 1, 2001 through June 30, 2003		18
A.01	Purpose	18
A.02	Definitions	18
A.03	Eligibility	19
A.04	Amount of Benefit	19
A.05	Preretirement Surviving Spouse Benefit	21
A.06	Plan Termination	22
A.07	Retirement Plan Benefits	22
Appendix B - Litton Cash Balance Restoration Program		24
B.01	Purpose	24
B.02	Eligibility	24
B.03	Amount of Benefit	24
B.04	Preretirement Survivor Benefit	25
B.05	Plan Termination	25
B.06	Retirement Plan Benefits	25

ARTICLE I

Definitions

The terms in this Article have the following meanings when capitalized:

- 1.01 Active Participant. This term is defined in Section 3.04(a).
- 1.02 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may also include other entities.
- 1.03 Avondale Plan. The Avondale Industries, Inc. Non-Represented Employees' Pension Plan.
- 1.04 Board of Directors. The Board of Directors of Northrop Grumman Corporation.
- 1.05 Code. The Internal Revenue Code of 1986, as amended.
- 1.06 Company. Litton Industries, Inc.
- 1.07 ERISA. The Employee Retirement Income Security Act of 1974, as amended.
- 1.08 FSSP. The Northrop Grumman Financial Security and Savings Program.
- 1.09 Ingalls Salaried Plan. The Ingalls Shipbuilding, Inc. Salaried Employees' Retirement Plan.
- 1.10 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program. However, no employees of the Component Technologies Sector or Premier America Credit Union may be Participants.
- 1.11 Plan. The Litton Industries, Inc. Restoration Plan 2.



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- 1.12 Plan Year. A 12-month period ending on December 31.
- 1.13 Program. One of the eligibility and benefit structures described in the Appendices.
- 1.14 Retirement Plan and Retirement Plans.
- (a) For periods after April 3, 2001 and before July 1, 2003, the FSSP, Retirement Plan “B,” and the Ingalls Salaried Plan. Appendix A provides the Program for this period.
  - (b) For periods after June 30, 2003, Retirement Plan “B,” the Avondale Plan, and the Ingalls Salaried Plan. Appendix B provides the Program for this period.
- 1.15 Retirement Plan “B.” This term refers to the benefit structure described in the plan document entitled Northrop Grumman Retirement Plan “B” or one of its predecessor plans. It does not include any benefit structures described in other plan documents, even if part of the legal plan named Northrop Grumman Retirement Plan “B” (for example, Northrop Grumman Retirement Plan “A,” the Ingalls Salaried Plan, and the Avondale Plan).
- 1.16 Termination of Employment. Complete termination of employment with the Affiliated Companies.
- (a) If a Participant ceases to perform services for one Affiliated Company to begin performing services for another, he or she will not have a Termination of Employment.
  - (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spun off.

ARTICLE II

General Provisions

2.01 In General. The Plan contains two different benefit Programs, which are described in the Appendices. The Appendices provide the eligibility conditions and the amount of benefits payable under the Programs.

(a) See Appendix A for the Program that applies to benefits earned for services performed after April 3, 2001 and before July 1, 2003.

(b) See Appendix B for the Program that applies to benefits earned for services performed after June 30, 2003.

2.02 Forms and Times of Benefit Payments. Unless a Program provides rules concerning the form and timing of benefit payments, the Company will determine the form and timing of benefit payments in its sole discretion, except where a lump sum election under Article III applies.

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

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

No payments will commence under this Plan until a Participant's Termination of Employment, even if benefits have commenced under a Retirement Plan for Participants over age 70½.

2.03 Beneficiaries and Spouses. The Participant may designate a beneficiary if the Company selects a form of payment that includes a survivor benefit. The Participant may change this designation at any time before benefits commence. A beneficiary designation must be in writing and will be effective only when received by the Company.

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

With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant's spouse will be the spouse as determined under the underlying tax-qualified plan. Otherwise, the Company has full discretionary authority to determine the identity of the Participant's spouse.

2.04 Amendment and Plan Termination. The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part.

- (a) Except as provided in (f) and Section 2.08, no amendment, suspension or termination of the Plan may, without the consent of a Participant, affect the Participant's right or the right of the surviving spouse to receive benefits in accordance with this Plan as in effect on the date the employee becomes a Participant.
- (b) After any amendment, the Participant's rights to benefits preserved in (a) will be determined as if he or she terminated employment immediately before the later of the amendment's adoption or effective date. The determination in the preceding sentence will be based on the relevant factors at that time, such as the Participant's compensation history, service credits and Code limitations on benefits.

- (c) The determination in (b) will be modified to take into account any post-amendment increases in benefits provided by the Company's tax-qualified retirement and savings plans to the extent those benefits relate to benefits due under this Plan. To the extent that any amendment to the Retirement Plans increases benefits in plan years for which a Participant already has received his or her benefits under the Plan, the Plan may offset the Participant's future benefits or take other reasonable steps solely to correct any duplicative payment of benefits.

Example 1: Assume an amendment eliminates all future benefits under a particular Program. Assume that the Program provides a level of benefits reduced by benefits paid under a tax-qualified plan. Assume further that as of the date of the amendment, a Participant's level of benefits under the Plan is \$150/month less a tax-qualified plan benefit of \$100/month, leaving the Participant a net benefit of \$50. Under paragraph (b), the Participant's right to that \$50 would be preserved.

Example 2: Same as Example 1, but assume that the Participant's tax-qualified plan benefit later increases to \$120/month. Under the provisions of this paragraph (c), for future months, the Participant would only be entitled to \$30 under this Plan.

Example 3: Same as Example 2, but assume that the Participant's tax-qualified plan benefit increases to \$120/month in a plan year for which the Participant already received his benefit of \$50/month from the Plan. Under the provisions of this paragraph (c), the Participant would have received the same benefits of \$20/month (or its actuarial equivalent) under the tax-qualified plans and under this Plan. To correct this, the Plan could either obtain reimbursement from the tax-qualified

plan of the amounts previously paid under this Plan but which are now an obligation of the tax-qualified plan or temporarily decrease the Participant's benefits in future months by \$20 until the full amount of excess benefits is offset.

- (d) The determination in (b) will also be adjusted to take into account post-amendment decreases in a Participant's compensation.
- (e) The rights of surviving spouses claiming benefits under the Plan with respect to a Participant will be preserved and limited in the same manner as a Participant's benefits.
- (f) The Company may, in its sole discretion, by written resolution adopted by the Board of Directors or its delegate, amend or eliminate any of the provisions of the Plan with respect to lump sum distributions at any time, including the calculation factors of Section 3.07. This applies whether or not a Participant has already elected a lump sum.
- (g) The Company may, in its sole discretion, seek reimbursement from the Company's tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled or became entitled under the tax-qualified plans.

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

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

2.07 Nonduplication of Benefits. This Section applies if, despite Section 2.06, the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due a Participant or beneficiary under this Plan will be reduced by the actuarial value of the payments made to another person or entity with respect to that Participant or beneficiary.

The actuarial value of lump sums will be determined using the factors and methodology described in Section 3.07 below. In all other cases, actuarial value will be determined using the actuarial assumptions in the underlying Retirement Plan.

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

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

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

To the extent the Company gives Participants and beneficiaries enforceable rights to funding, those rights must be determined under the terms of other documents. No such rights exist under this Plan document, and the restrictions on amendments in this Plan document will in no case apply to restrict the Company's right to cease or alter the terms of any funding.

- 2.09 Construction. The Company has full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.
- 2.10 Governing Law. This Plan is governed by the law of the State of California, except to the extent superseded by federal law.
- 2.11 Actions By Company. The Company's powers under the Plan will be exercised by written resolution of the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.
- 2.12 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.
- 2.13 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

ARTICLE III

Lump Sum Election

3.01 In General. This Article provides the rules under which Participants may elect to receive their Plan benefits in a lump sum. Except as provided in Section 3.07, this Article does not apply to Active Participants (as defined in Section 3.04) whose benefits do not exceed \$10,000 because they are automatically payable in lump sum form under Section 2.02.

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

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

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

Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who



are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993. The cost charged to the retirees for this coverage will be determined as if the retiree had been employed 20 or more years by the Company.

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

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

- (a) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.
- (b) No lump sum payment will be made if:
  - (1) The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the lump sum payment is due.

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

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

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

A Participant's election may be revoked before it is effective.

A Participant's election will never take effect if the Participant does not have a Termination of Employment within 60 days after making the election.

- (d) An election may only be made once. It cannot be made again if it fails to become effective after 60 days or is revoked before becoming effective.

- (e) No election can be made after a Participant's Termination of Employment.
- (f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits that may be due the spouse.
- (g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or notary public.

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

- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
  - (1) for a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
  - (2) for a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form—
    - (A) with the survivor benefit equal to 50% of the Participant's benefit;
    - (B) with the Participant's spouse as the survivor annuitant;
    - (C) determined by using the contingent annuitant option factors used to convert

straight life annuities to 50% joint and survivor annuities under the Northrop Grumman Retirement Plan "B"; and

(D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.

- (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
- (c) No lump sum payment will be made if:
  - (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
  - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
- (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
  - (1) the Participant dies after making a valid lump sum election but before commencement of any benefits under this Plan;
  - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
  - (3) the spouse survives to the first of the month following the date of the Participant's death.

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

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

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

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

- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or

(2) the applicable interest rate under section 417(e)(3) of the Code that would be used to calculate a lump sum value for the benefit under the Retirement Plans.

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

Increase in Section 415 Limit: 4% per year.

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

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

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

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

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

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

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

3.08 Spousal Consent. Spousal consent for the elections described above is not necessary if the Company determines that there is no spouse or the spouse cannot be located.

/s/ Richard A. Underhill

Richard A. Underhill

Vice President, Compensation and Benefits

6/30/03

Date



APPENDIX A

Litton Restoration Program – Post April 3, 2001 through June 30, 2003

- A.01 Purpose. The purpose of this Program is simply to restore to employees of the Company the benefits they lose under the Retirement Plans as a result of the compensation limit in Code section 401(a)(17) and/or the limit on deferrals in Code section 402(g), or any successor provisions. This Appendix applies to benefits earned for service performed after April 3, 2001 and before July 1, 2003.
- A.02 Definitions. The following terms have the meanings below for purposes of this Appendix.
- (a) Annual Compensation. Compensation paid during the calendar year, subject to the following:
- (1) For compensation paid before July 1, 2003, Annual Compensation means “Compensation” as defined in the FSSP.
  - (2) For compensation paid after June 30, 2003, Annual Compensation means “Compensation” as defined in the Northrop Grumman Savings Plan (NGSP) for participants who transfer to that plan only in the year of transfer.
  - (3) Compensation does not include retention bonuses paid as a result of the acquisition of Litton Industries, Inc. by Northrop Grumman Corporation.
  - (4) Compensation does not include amounts paid for service performed before January 1, 2001 or after December 31, 2003.
  - (5) Transfers. For anyone who transferred from the FSSP to the NGSP before 2003, the rule under (1) applies to pre-transfer periods, and the rules under (2) apply to periods after the transfer.

(b) Annuity Equivalent. “Annuity Equivalent” determined in the same manner as the prior version of this Program.

A.03 Eligibility. An employee of the Company or one of its subsidiaries is eligible to receive a benefit under this Program if he or she:

- (a) retires on or after May 1, 2001;
- (b) has vested in benefits under one or more of the Retirement Plans that are reduced because of the application of Code section 401(a)(17) and/or Code section 402(g); and
- (c) is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives, the Litton Industries, Inc. Restoration Plan, or any other plan or program that bars an employee from participation in this Program.
- (d) Has deposited the maximum amount of pretax Employee Deposits under the FSSP, including the Basic Contributions under the NGSP in a transfer year (excluding any age 50 catch-up contributions).

A.04 Amount of Benefit.

- (a) General. The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime is intended to make up for the retirement benefit, if any, that would have been payable to the Participant under the terms of a Retirement Plan, but for the restrictions of Code sections 401(a)(17) and/or 402(g), or any successor section as those limits are described by the applicable Retirement Plan.

- (b) **Benefit Formula.** The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime equals the sum of all of his or her annual Part I Excess Benefits and annual Part II Excess Benefits for each year in which the individual was a Participant.
- (c) **Part I Excess Benefit.** A Participant's annual Part I Excess Benefit equals (4), where:
- (1) equals the Participant's Annual Compensation multiplied by 4%;
  - (2) equals the actual amount of the Participant's pretax Employee Deposits under the FSSP or Tax-Deferred Contributions under the NGSP for the Plan Year (as limited by Code sections 401(a)(17) and/or 402(g));
  - (3) equals (1) minus (2); and
  - (4) equals 85% of (3), minus the Annuity Equivalent of (3).
- (d) **Part II Excess Benefit.** A Participant's annual Part II Excess Benefit equals (4), where:
- (1) equals the Participant's Annual Compensation multiplied by 6%;
  - (2) equals the actual amount of the Participant's Matched Deposits under the FSSP and Basic Contributions under the NGSP for the Plan Year (as limited by Code sections 401(a)(17) and/or 402(g));
  - (3) equals (1) minus (2);
  - (4) equals the Annuity Equivalent of 50% of (3).

- (e) Partial Year 2003. Subsections (c) and (d) above are modified as provided in this subsection for Participants who are eligible for an accrual under this Program in Plan Year 2003.
  - (1) The benefit will be calculated based on a full year of Annual Compensation.
  - (2) The total benefit in subsections (c) and (d) above are offset by the benefit amount earned from July 1, 2003 to December 31, 2003 under Appendix B.
- (f) Vested Benefits. Benefits under this Program will only be paid to supplement benefit payments actually made from a Retirement Plan. If benefits are not payable under a Retirement Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Program with respect to such Retirement Plan.
- (g) No duplication of benefits. In any year in which a Participant earns benefits in two or more qualified defined benefit plans, the benefits from this plan will be reduced for any restoration plan benefits paid from the other defined benefit plan.

A.05 Preretirement Surviving Spouse Benefit. Preretirement surviving spouse benefits will be payable under this Program on behalf of a Participant if such Participant's surviving spouse is eligible for benefits payable from a Retirement Plan. The amount of the preretirement surviving spouse benefit is the amount under A.04, adjusted as follows:

- (a) Death on or After Normal Retirement Age. The Participant's surviving spouse will receive a 100% survivor annuity calculated assuming the employee commenced receiving normal retirement benefits the day before death.
- (b) Death on or After Early Retirement Age, But Before Normal Retirement Age. The Participant's surviving

spouse will receive a 100% survivor annuity calculated assuming the employee commenced receiving early retirement benefits the day before death.

- (c) Death Before Early Retirement Age. The Participant's surviving spouse will receive a 100% survivor annuity calculated assuming the employee terminated employment and survived to normal (or early) retirement age and commenced receiving a joint and survivor annuity.

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

- A.06 Plan Termination. No further benefits may be earned under this Program with respect to a particular Retirement Plan after the termination of such Retirement Plan.

- A.07 Retirement Plan Benefits. For purposes of this Appendix, the term "Retirement Plan Benefits" generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Retirement Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and/or 402(g) and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term "Retirement Plan Benefits" shall be deemed to mean the benefits that actually would have been payable but for such other reason.

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

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Retirement Plan. In such a case, the Retirement Plan Benefits will be deemed to refer to the payments that would have been made from the Retirement Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).

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- (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.
  - (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant's benefits to a third party on behalf of or with respect to a Participant.

Litton Cash Balance Restoration Program

- B.01 Purpose. The purpose of this Program is simply to restore to employees of the Company the benefits they lose under Retirement Plan “B” and the Avondale Plan after June 30, 2003 as a result of the compensation limit in Code section 401(a)(17) and/or the benefit limit in Code section 415(b), or any successor provisions.
- B.02 Eligibility. An employee of the Company is eligible to receive a benefit under this Program if he or she:
- (a) retires on or after July 1, 2003;
  - (b) has vested in benefits under Retirement Plan “B,” the Ingalls Salaried Plan, or the Avondale Plan that are reduced because of the application of Code section 401(a)(17) and/or Code section 415(b); and
  - (c) is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Program.
- B.03 Amount of Benefit. The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime will equal the retirement benefit, if any, that would have been payable to the Participant under the terms of a Retirement Plan, but for the restrictions of Code section 401(a)(17) and/or Code section 415(b) (or any successor sections) as those limits are described by the applicable Retirement Plan. “Compensation” is defined by the pension plans and includes the amount that would have been counted under the Qualified plans except that it was deferred under The Northrop Grumman Deferred Compensation plan.

Benefits under this Program will only be paid to supplement benefit payments actually made from Retirement Plan "B" or the Avondale Plan. If benefits are not payable under Retirement Plan "B" or the Avondale Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Program with respect to those plans.

- B.04 Preretirement Survivor Benefit. Preretirement survivor benefits will be payable under this Program on behalf of a Participant if the Participant's beneficiary is eligible for benefits payable from Retirement Plan "B" or the Avondale Plan. The benefit payable will be the amount that would have been payable under the Retirement Plan but for the restrictions of section 401(a)(17) (or any successor section), as that limit is described in the applicable Retirement Plan. The benefit payable under this Program will be paid in a lump sum to nonspouse beneficiaries and in either a lump sum or single life annuity to spouse beneficiaries.

The benefit payable under this Program will be reduced by the combined amounts of the Retirement Plan Benefits and the Northrop Grumman Corporation ERISA Supplemental Plan 1 benefits attributable to the applicable Retirement Plan.

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

- B.05 Plan Termination. No further benefits may be earned under this Program with respect to a particular Retirement Plan after the termination of the Retirement Plan.

- B.06 Retirement Plan Benefits. For purposes of this Appendix, the term "Retirement Plan Benefits" generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Retirement Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and not reductions caused for any other reason. Where pension benefits are reduced for some other reason, the term "Retirement Plan Benefits" shall be deemed to mean the benefits that actually would have been payable but for such other reason.



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

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Retirement Plan. In such a case, the Retirement Plan Benefits will be deemed to refer to the payments that would have been made from the Retirement Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).
- (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.
- (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant's benefits to a third party on behalf of or with respect to a Participant.
- (d) No duplication of benefits. If the participant is eligible for restoration plan benefits another Excess plan for the same period of service, the benefit under this plan will be reduced accordingly to prevent a duplication of benefits.

LITTON INDUSTRIES, INC.

RESTORATION PLAN

(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Section 1 - General	
1.1 Purpose	1
1.2 Coverage	1
Section 2 - Participating Divisions and Subsidiaries	
2.1 Participating Division or Subsidiary	2
Section 3 - Definitions	
3.1 Actuarial Equivalent	2
3.2 Affected Employee	2
3.3 Affiliate Company	2
3.4 Annual Benefit	2
3.5 Annual Benefit Statement	2
3.6 Annual Compensation	2
3.7 Beneficiary	3
3.8 Board	3
3.9 Break in Service Period	3
3.10 Change in Control	3
3.11 Code	4
3.12 Committee	4
3.13 Coverage Date	5
3.14 Year(s) of Service	5
3.15 Designated Foreign Corporation	5
3.16 Director	5
3.17 Interest	5
3.18 Mandatory Contribution	6
3.19 Retirement Account Restricted Amount	6
3.20 Savings Account Restricted Amount	6
3.21 Plan	6
3.22 Plan Administrator	6
3.23 Plan Year	6
3.24 Restricted Amount	6
3.25 Retirement	7
3.26 Spouse	7
3.27 Termination of Employment	7
3.28 Trust	7
3.29 Trust Agreement	7
3.30 Trustee	7

<u>Section</u>	<u>Page</u>
Section 4 - Participation	
4.1    Participation	7
Section 5 - Retirement Dates	
5.1    Normal Retirement Date	7
5.2    Early-Retirement Date	7
5.3    Disability Retirement Date	7
Section 6 - Amount of Retirement Income	
6.1    Normal Retirement Benefit	8
6.2    Early Retirement Benefit	9
6.3    Disability Retirement Benefit	9
6.4    Vesting Schedule	9
6.5    Initial and Subsequent Payment Dates	9
Section 7 - Death Benefit	
7.1    Pre-Retirement Spouse Benefit	10
7.2    Death After Retirement	10
Section 8 - Termination of Employment	
8.1    Rights of Affected Employees	10
8.2    Transfer of Employment	10
Section 9 - Forms of Retirement Income	
9.1    Joint and Survivor Income Annuity	11
9.2    Straight Life Annuity	11
9.3    Spousal Death Within Two Years After Retirement	11
9.4    Annuity Options	11
Section 10 - Miscellaneous	
10.1    Receipt and Release for Payments	12
10.2    Dispute as to Benefit Payments	13
10.3    No Contract of Employment	13
10.4    Commutation of Benefit	13
Section 11 - Amendment or Discontinuance	
11.1    Amendment of Plan	13
11.2    Freezing Plan Benefits	13
11.3    Termination of Plan	14
11.4    Merger or Consolidation	14
11.5    Contractual Obligation	14
Section 12 - Plan Administration	
12.1    Plan Administrator	14

<u>Section</u>	<u>Page</u>
Section 13 - Change of Control Provisions	
13.1 Change of Control	15
13.2 Eligibility for Retirement Benefits	15
13.3 Vesting – Change of Control	15
13.4 Benefit Forms after April 2, 2001	15
13.5 Payments to Trust	16
13.6 Administrative Procedures	17
13.7 Enforcement	17

Appendices

- Appendix 1 – Participating Divisions and Subsidiaries
- Appendix A – Assumptions to Calculate the Present Value of Remaining Restoration Plan Benefits
- Appendix Regarding Acquisition Of Litton Industries, Inc.
- Appendix Regarding Investment Matters
- Appendix Regarding Plan Administration

The Litton Industries, Inc. Restoration Plan (the "Plan") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

The Plan became effective January 1, 1987. Since then the Plan has been amended as follows:

- (a) in January 1988 to change the benefit formula and pre-retirement spouse benefit;
- (b) In April 1998 to change the definition of annual compensation to count wages deferred in the plan year;
- (c) to add change of control protections, effective September 24, 1998;
- (d) in August 1999 to, among other things, (1) provide for coverage of subsidiaries, (2) make conforming changes as made to the qualified retirement plan (including changes to the benefit formula), and (3) add optional annuity forms of payment.
- (e) in March 2001 to change the form of benefits to be received by the participants following a change of control;
- (f) in April 2001 to address (1) the acquisition of Litton Industries, Inc. by Northrop Grumman Corporation , (2) investment matter changes as a result of this acquisition, and (3) plan administration changes as a result of this acquisition;
- (g) in August 2001 to modify the plan administration changes resulting from the acquisition of Litton Industries, Inc.; and
- (h) in December 2003 to modify the benefit forms available under the Plan effective as of April 3, 2001.

#### Section 1 - General

1.1 Purpose - The purpose of the Plan is to provide, on an unfunded basis, the aggregate amount of Annual Benefits earned by the Affected Employees of the Participating Divisions and Subsidiaries of Litton Industries, Inc., a Delaware corporation, and any unit thereof, enumerated in Section 2 and hereinafter referred to collectively as the "Company".

#### 1.2 Coverage

- A. Unless otherwise provided, the provisions of the Plan shall apply to any Affected Employee who incurs a Termination of Employment on or after January 1, 1989.

- B. Any subsequent amendment to this Plan shall apply only to an Affected Employee who incurs a Termination of Employment on or after the effective date of said amendment, unless said amendment provides otherwise.

## Section 2 - Participating Divisions and Subsidiaries

- 2.1 Participating Division or Subsidiary - The Participating Divisions and Subsidiaries and their respective participation dates are listed in Appendix 1 attached hereto. When the name or status of a Participating Division or Subsidiary is changed, the change shall be effective for Plan purposes.

## Section 3 - Definitions

As used in the Plan, the following terms shall have the meanings defined below.

- 3.1 Actuarial Equivalent - Except as otherwise provided by the next sentence, the definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended. On or after a Change of Control, an Affected Employee's benefit, a Spouse's benefit, or a Beneficiary's benefit, shall be computed using the actuarial factors set forth in Appendix A hereof.
- 3.2 Affected Employee - An Affected Employee, for any particular Plan Year, is an individual employed as a common law employee by the Company (except that an individual who is a participant under the Litton Supplemental Retirement Plan, as amended, for such Plan Year shall, notwithstanding any other provision of the Plan, be deemed to have a Retirement Account Restricted Amount of zero for such Plan Year) 8% of whose Annual Compensation for that particular Plan Year exceeds the maximum amount of elective deferrals available to such Affected Employee to a Code section 401(k) plan for such Plan Year and who was a participant in the Litton Financial Security and Savings Program, as amended from time to time, (the "FSSP") for such Plan Year and who contributed his legally permissible maximum amount to the FSSP for such Plan Year.
- 3.3 Affiliate Company - Each company fifty percent (50%) or more of whose voting stock is owned directly or indirectly by Litton Industries, Inc., its successors or assigns, and which company is not a participating division or subsidiary of the Plan.
- 3.4 Annual Benefit - The portion of the total annual retirement benefit that an Affected Employee is entitled to with respect to a particular Plan Year, determined in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable.
- 3.5 Annual Benefit Statement - The statement given to an Affected Employee for each Plan Year such Affected Employee is entitled to an Annual Benefit under the Plan. All such Annual Benefit Statements shall be in the form prescribed by the Plan Administrator.
- 3.6 Annual Compensation - An Affected Employees wages paid or deferred by the Company (limited, however, to wages paid or deferred by the Company on or after the date the

Participating Division or Subsidiary by which the Affected Employee is employed became a Participating Division or Subsidiary), as determined under section 3121 of the Code without regard to the dollar limitation of section 3121(a)(1) of the Code, excluding therefrom any amount so paid which represents (a) reimbursed expenses, (b) wages not paid in cash, (c) cash received pursuant to the exercise of a stock appreciation right, or (d) certain other wage items as may be agreed to from time to time between the Company and one or more Affected Employees.

Wages deferred by an Affected Employee shall be treated as Annual Compensation only for the Plan Year of deferral and not for the Plan Year of actual payment.

3.7 Beneficiary means the Spouse of an Affected Employee or, if there is no surviving Spouse at the time of the Affected Employee's death or if the Spouse has previously given written consent, such other person(s) designated by the Affected Employee on a form provided by the Plan Administrator to receive any payment or payments becoming due to a Beneficiary under the Plan. Such designation may be changed from time to time, except that a designated Beneficiary may not be changed after the commencement of retirement benefits. Any spousal consent required hereunder shall be invalid unless signed by the Spouse and witnessed by the Plan Administrator, his representative or a notary public.

3.8 Board - The Board of Directors of Litton Industries, Inc., a Delaware corporation.

3.9 Break in Service Period - The definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended from time to time.

3.10 Change in Control shall mean -

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either (1) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Section 3.10(a), the following acquisitions of stock shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of Section 3.10(c); or
- (b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the date hereof whose



election, or nomination subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of a least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

- (c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless following such Business Combination, (1) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or
- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3.11 Code - The Internal Revenue Code of 1986, as amended.

3.12 Committee shall mean -

- (a) The Compensation and Selection Committee of the Board.
- (b) Notwithstanding Section 3.12(a), upon a Change of Control, the Committee shall mean exclusively the "special administrators." The "special administrators" shall

be the individuals who constituted the Committee immediately prior to the Change of Control. The “special administrators” shall constitute the Committee until the last day of the eighteenth month following the month in which the Change of Control occurred. The “special administrators” shall have all rights and authority reserved to the Committee under this Plan.

- (c) If a “special administrator” dies, becomes disabled, or resigns as “special administrator” during the period that the “special administrators” constitute the Committee, the remaining “special administrator(s)” shall continue to serve as the Committee without interruption. A successor “special administrator” shall be required only if there are less than three (3) remaining “special administrators.” If a successor “special administrator” is required, the successor shall be the individual who, at that time, (1) is not already a “special administrator,” and (2) is not a Participant or currently an employee of the Company, and (3) was the member of the Board immediately prior to the Change of Control with the longest period of service on the Board, and (4) agrees to serve as a “special administrator.”
- (d) If a successor “special administrator” is required and there are no individuals remaining who satisfy the criteria described in Section 3.12(c), then a successor “special administrator” shall either be appointed by the Trustee or, in the Trustee’s discretion, the Trustee shall submit the selection of the “special administrator(s)” to an arbitrator, the costs of which shall be borne fully by the Company, to be decided in accordance with the American Arbitration Association Commercial Arbitration Rules then in effect. If at any time, there are no remaining “special administrators,” the Trustee shall act as the “special administrator” until the successor(s) is selected.

3.13 Coverage Date - January 1, 1987, or the date an employee of the Company first becomes an Affected Employee, if later.

3.14 Year(s) of Service - The definition of such term under the Litton Industries, Inc. Retirement Plan “B”, as amended.

3.15 Designated Foreign Corporation - An entity: (a) created under the laws of a country other than the United States; (b) of which a majority of the voting shares are owned directly or indirectly by Litton Industries, Inc.; and (c) with respect to which the Company has entered into an agreement under section 3121(l) of the Code, and has satisfied the provisions of section 406 of the Code.

3.16 Director - shall mean a member of the Board of Directors of Litton Industries, Inc.

3.17 Interest - The amount of interest (based on a stated rate of interest, compounded annually, as determined by the Board or its delegate) with respect to the Retirement Account and Savings Account Restricted Amounts of all Affected Employees for a particular Plan Year with such rate of interest to be fixed for all of such Restricted Amounts and to commence on the first day of the Plan Year succeeding such particular Plan Year and to

continue for all Plan Years thereafter; but such interest shall cease with respect to the Retirement Account and Savings Account Restricted Amounts of any particular Affected Employee upon the later of: (i) the last day of the month such Affected Employee is projected to attain his Normal Retirement Date for purposes of determining the amount of such Affected Employee's annual retirement benefit pursuant to Section 6.1; or (ii) if such Affected Employee attains Retirement after his Normal Retirement Date, the last day of the month such Affected Employee attains Retirement.

- 3.18 Mandatory Contribution shall mean, as of a Change of Control, an amount equal to the excess of "A" over "B," where -
- (a) "A" is one hundred twenty percent (120%) of the present value of all vested benefits under the Plan determined under the factors set forth in Appendix A; and
  - (b) "B" is the current value of the Trust as determined by the Trustee on the business day immediately preceding the day that a Mandatory Contribution is paid to the Trustee.
- 3.19 Retirement Account Restricted Amount - As applied for any particular Plan Year to a particular Affected Employee, the Retirement Account Restricted Amount, if any, shall be that portion of such Affected Employee's Restricted Amount for such Plan Year which is equal to the excess, if any, of 4% of such Affected Employee's Annual Compensation for such Plan Year over 4% of such Affected Employee's Annual Compensation for such Plan Year where such Annual Compensation is limited to the annual compensation limit prescribed under Code section 401(a)(17) for such Plan Year.
- 3.20 Savings Account Restricted Amount - As applied for any particular Plan Year to a particular Affected Employee, the Savings Account Restricted Amount of such Affected Employee shall equal one-half of the excess of 8% of such Affected Employee's Annual Compensation for such Plan Year over 4% of such Affected Employee's Annual Compensation for such Plan Year where such Annual Compensation is limited to the Annual Compensation limit prescribed under Code section 401(a)(17) for such Plan Year.
- 3.21 Plan - Litton Industries, Inc. Restoration Plan.
- 3.22 Plan Administrator - The person appointed to administer the Plan pursuant to Section 12.
- 3.23 Plan Year - January 1, 1987 to December 31, 1987 and each calendar year thereafter.
- 3.24 Restricted Amount - As applied for any particular Plan Year to a particular Affected Employee, the Restricted Amount of such Affected Employee shall be the amount, if any, by which 8% of such Affected Employee's Annual Compensation for the particular Plan Year under consideration exceeds the maximum amount of elective deferrals available to such Affected Employee to a Code section 401(k) plan for such Plan Year.

- 3.25 Retirement - An Affected Employee who incurs a Termination of Employment attains Retirement under the Plan when he is eligible to and elects to receive his annual retirement benefit under the Plan except that any Affected Employee who continues to be employed by the Company after his Normal Retirement Date shall attain Retirement immediately upon his Termination of Employment.
- 3.26 Spouse - A person who has been married to the Affected Employee throughout the one-year period ending on the earlier of the date the Affected Employee's annual retirement benefit commences under the Plan, or the date of the Affected Employee's death.
- 3.27 Termination of Employment - When an Affected Employee is discharged or quits from the Company; but such term shall not include an authorized leave of absence from the Company.
- 3.28 Trust shall mean the Litton Industries, Inc., Restoration Plan Trust, as amended from time to time.
- 3.29 Trust Agreement shall mean the terms of the agreement entered into between Litton Industries, Inc., and the Trustee that establish the Trust.
- 3.30 Trustee shall mean the trustee of the Trust.

#### Section 4 - Participation

- 4.1 Participation - Effective January 1, 1987, each Affected Employee of the Company shall be a participant in the Plan.

#### Section 5 - Retirement Dates

- 5.1 Normal Retirement Date - An Affected Employee's sixty-fifth (65th) birthday.
- 5.2 Early Retirement Date - The date that an eligible Affected Employee elects to retire and receive an early retirement benefit prior to his Normal Retirement Date. Except as otherwise provided in the following sentence with respect to the surviving Spouse of a deceased Affected Employee, an Affected Employee may not elect to receive an early retirement benefit unless he is age fifty-five (55) or older and has at least five (5) Years of Service. In the case of determining whether a Pre-Retirement Spouse benefit is payable in accordance with Section 7.1 of the Plan, the Early Retirement Date of the deceased Affected Employee shall be the date on which such Affected Employee would have attained age fifty-five (55) or older had he lived.
- 5.3 Disability Retirement Date - The date that an eligible Affected Employee elects to retire and receive a disability retirement benefit prior to his Normal Retirement Date. An Affected Employee may not elect to receive a disability retirement benefit unless he is an Affected Employee who becomes totally and permanently disabled while employed by

the Company and who has attained age fifty-five (55). An Affected Employee shall be deemed totally and permanently disabled for the purpose of the Plan only when he will be in the opinion of a qualified physician permanently, continuously and wholly prevented by bodily injuries or disease for life from engaging in any occupation or employment for wage or profit, as long as he is also entitled to disability benefits under the Federal Social Security Act.

## Section 6 - Amount of Retirement Income

### 6.1 Normal Retirement Benefit

- (a) Any person who was an Affected Employee with respect to one or more Plan Years and who attains Retirement on or after his Normal Retirement Date shall be entitled to receive an annual retirement benefit which will be equal to (i) multiplied by (ii), wherein: (i) is equal to the aggregate amount of such Affected Employee's Annual Benefit amounts with respect to all Plan Years during which such Affected Employee was an Affected Employee, with each such amount being computed for each such Plan Year in accordance with paragraphs (b)(1) and (2) below; and, wherein (ii) is equal to the vested percentage of such Affected Employee, determined in accordance with Section 6.4, in his annual retirement benefit.
- (b) (1) For any particular Plan Year, an Affected Employee's Annual Benefit attributable to his Retirement Account Restricted Amount, if any, for such Plan Year shall be equal to eighty-five percent (85%) of the Retirement Account Restricted Amount of such Affected Employee for such Plan Year reduced by [[the sum of (i) plus (ii)] multiplied by (iii)], wherein: (i) is equal to the Retirement Account Restricted Amount of such Affected Employee for such Plan Year; wherein (ii) is equal to the amount of Interest with respect of (i) above; and, wherein (iii) is equal to either:
- (a) the Actuarial Equivalent factor, for such Plan Year, applicable under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's projected age at his Normal Retirement Date; or (b) if such Affected Employee attains Retirement after his Normal Retirement Date, the Actuarial Equivalent factor, for such Plan Year, under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's age when he attains Retirement.
- (2) For any particular Plan Year, an Affected Employee's Annual Benefit attributable to his Savings Account Restricted Amount shall be equal to [[the sum of (i) plus (ii)] multiplied by (iii)], wherein: (i) is equal to the Savings Account Restricted Amount of such Affected Employee for such Plan Year; wherein (ii) is equal to the amount of Interest with respect to (i) above; and, wherein (iii) is equal to either: (a) the Actuarial Equivalent factor, for such Plan Year, applicable under the Litton Industries, Inc.

Retirement Plan "B", as amended, with respect to such Affected Employee's projected age at his Normal Retirement Date; or (b) if such Affected Employee attains Retirement after his Normal Retirement Date, the Actuarial Equivalent factor, for such Plan Year, under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's age when he attains Retirement.

- 6.2 Early Retirement Benefit - At his Early Retirement Date an Affected Employee who attains Retirement, or his surviving Spouse if a benefit is payable pursuant to Section 7.1 of the Plan, shall be entitled to an annual early retirement benefit which will be equal to the annual retirement benefit amount calculated pursuant to Section 6.1(b)(1) and (2) above for such Affected Employee reduced by one-half percent (1/2%) for each full month by which his Early Retirement Date precedes (i) his Normal Retirement Date, or (ii) attainment of age sixty-two (62) for any Affected Employee who incurred a Termination of Employment on or after January 1, 1997 and who has attained both age fifty-five (55) or more at such time and who has at least seven (7) Years of Service (five (5) Years of Service for any Affected Employee whose annual retirement benefit commences on or after January 1, 1999) at such time.
- 6.3 Disability Retirement Benefit - At his Disability Retirement Date an Affected Employee who attains Retirement shall be entitled to an annual disability benefit which will be equal to the normal benefit amount calculated pursuant to Section 6.1 (b)(1) and (2) above for such Affected Employee reduced by one-half percent (1/2%) for each full month by which his Disability Retirement Date precedes his Normal Retirement Date.
- 6.4 Vesting Schedule - An Affected Employee shall be vested in his annual retirement benefit under the Plan according to the Company purchased retirement benefit vesting schedule under the Litton Industries, Inc. Retirement Plan "B", as amended from time to time, except that: (i) for purposes of this Plan only, on the Disability Retirement Date of any Affected Employee, such Affected Employee shall become one hundred percent (100%) vested in his annual disability retirement benefit, notwithstanding his actual number of Year(s) of Service; and (ii) for purposes of this Plan only, if an Affected Employee should die prior to incurring a Termination of Employment, such Affected Employee's Spouse, if any, shall become one hundred percent (100%) vested in his annual retirement benefit, notwithstanding such Affected Employee's actual number of Year(s) of Service at the time of his death.
- 6.5 Initial and Subsequent Payment Dates - An Affected Employee's annual retirement benefit shall be payable in twelve (12) equal monthly installments commencing effective the first of the month following the month the Affected Employee attains Retirement and the first payment shall be made no later than sixty (60) days following the end of the Plan Year in which the Affected Employee attains Retirement, except that no payment shall be made until the date that an Affected Employee files with the Company a request for payment of an annual retirement benefit on a form prescribed by the Plan Administrator.

## Section 7 - Death Benefits

- 7.1 Pre-Retirement Spouse Benefit - If a married Affected Employee dies after becoming either wholly or partially vested under this Plan and before commencing to receive an annual retirement benefit, his surviving spouse shall be entitled to receive an annual benefit, commencing on the first day of the month following the later of the date of death of the Affected Employee or the date the Affected Employee would have attained his Early Retirement Date, and terminating with the last monthly payment preceding the surviving Spouse's death. In the case of an Affected Employee who dies before commencing to receive an annual retirement benefit, but after he has attained his Early Retirement Date, the amount of annual benefit to which such Affected Employee's surviving Spouse shall be entitled shall be equal to the amount which would have been payable to the surviving Spouse had the Affected Employee commenced receiving an annual retirement benefit pursuant to Section 6.1 or Section 6.2, whichever is applicable, on the day before his death, in the form of a joint and survivor income annuity computed in accordance with Section 9.1. In the case of an Affected Employee who dies before commencing to receive an annual retirement benefit and before he has attained his Early Retirement Date, the amount of such annual benefit to which such Affected Employee's surviving Spouse shall be entitled shall be equal to the amount which would have been payable had the Affected Employee incurred a Termination of Employment on the date of his death, (or the date of his actual Termination of Employment, if earlier) survived to his Normal Retirement Date under Section 5.1 or to his Early Retirement Date under Section 5.2, if applicable, and commenced receiving his annual retirement benefit in the form of a joint and survivor income annuity computed in accordance with Section 9.1 on his Normal Retirement Date or his Early Retirement Date, whichever is applicable, and died immediately thereafter.
- 7.2 Death After Retirement - Upon the death of an Affected Employee after he has attained Retirement, his surviving Spouse shall be entitled to an annual benefit determined in accordance with Section 9.1.

## Section 8 - Termination of Employment

- 8.1 Rights of Affected Employees - In the event that an Affected Employee incurs a Termination of Employment, any part of his accrued benefit which is not then vested in accordance with Section 6.4 shall be forfeited. Such amount forfeited shall not be restored unless such Affected Employee is reemployed by the Company and has not incurred a Break in Service Period prior to such reemployment by the Company.
- 8.2 Transfer of Employment - If an Affected Employee transfers from a category of employment covered by the Plan to a category of employment not covered by the Plan with Litton Industries, Inc., with any Affiliate Company or Designated Foreign Corporation, said Affected Employee shall be deemed not to have incurred a Termination of Employment.

## Section 9 - Forms of Retirement Income

- 9.1 Joint and Survivor Income Annuity - The annual retirement benefit of an Affected Employee who is married at the time he attains Retirement shall be payable to the Affected Employee in twelve (12) equal monthly payments commencing with the first calendar month after the Affected Employee attains Retirement for his life, and shall continue to be payable monthly to his surviving Spouse, following the death of the Affected Employee, for the life of the surviving Spouse. Payments will cease with the last payment made prior to the date of the death of the surviving Spouse. Such annual retirement benefit shall be the Actuarial Equivalent of a straight life annuity computed in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable, payable for the life of the Affected Employee. Any such survivor benefit shall be equal to one hundred percent (100%) of the annual retirement benefit payable during the joint lives of the Affected Employee and his surviving Spouse.
- 9.2 Straight Life Annuity - If an Affected Employee does not have a Spouse at the time he attains Retirement, his annual retirement benefit will be payable in the form of a straight life annuity for the life of the Affected Employee and shall be payable in twelve (12) equal monthly payments commencing with the first calendar month after the Affected Employee attains Retirement. Payments will cease with the last payment made prior to the date of death of the Affected Employee. The amount of the annual retirement benefit will be computed in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable.
- 9.3 Spousal Death Within Two Years After Retirement - Notwithstanding Section 9.1, if the Spouse of an Affected Employee who is married at the time he attains Retirement and after he commences to receive an annual retirement benefit pursuant to Section 9.1 should predecease such Affected Employee not more than two (2) years after he commences to receive a retirement benefit under Section 9.1, such annual retirement benefit shall, commencing with the first retirement benefit payment payable as of the first day of the calendar month after the calendar month during which the death of his Spouse occurred, be converted to an annual retirement benefit computed pursuant to Section 9.2 in an annual amount equal to the amount of the annual retirement benefit the Affected Employee would have received at the time of and based on his age at the date of his Retirement.
- 9.4 Annuity Options  
An Affected Employee may elect in writing to the Plan Administrator, within the ninety (90) day period prior to his commencement of benefits, to be paid in an optional form of annuity other than that provided under Section 9.1 or 9.2 above. With respect to an Affected Employee who is married at the time he attains Retirement, in no event shall an election of any such optional benefit form be effective unless it is made in connection with the express written consent of his Spouse in a form and manner satisfactory to the Plan Administrator.
- (a) A married Affected Employee may elect, with the consent of his Spouse, a life annuity pursuant to Section 9.1.



- (b) (i) A married Affected Employee may elect, with the consent of his Spouse an optional form of joint and surviving spousal annuity which is the Actuarial Equivalent of the annuity provided for under Section 9.2 but which provides a reduced monthly benefit to the Affected Employee for his life, and, upon his death, an annuity for the life of his surviving Spouse in a monthly amount equal to one of the following: fifty percent (50%) or seventy-five percent (75%) of the amount payable to the Affected Employee during his life.
  - (ii) This annuity option is available only to an Affected Employee who is married to a Spouse within the meaning of Section 3.26.
- (c) “Ten-Year Certain and Continuous Annuity” means an annuity that is the Actuarial Equivalent of the normal form of annuity that provides a reduced monthly benefit to the Affected Employee for life. Upon his death, if he has not received one hundred twenty (120) monthly payments, a monthly benefit, equal to that payable to the Affected Employee during his life, shall be paid to his designated Beneficiary until the number of monthly payments received by the Affected Employee and his designated Beneficiary equals one hundred and twenty (120). The designated Beneficiary may elect an additional Beneficiary to receive any monthly payment then still owing in the event of the death of the first Beneficiary prior to the number of monthly payments equaling one hundred and twenty. If there is ever a circumstance where no Beneficiary is alive for purposes of receiving payments pursuant to this Subsection 9.4(c) of the Plan then the estate of the last named Beneficiary may elect to receive the then Actuarial Equivalent, determined in accordance with Subsection 6.05(c) of the Litton Industries, Inc. Retirement Plan “B”, of any remaining payments in a lump sum amount which will be payable by the Plan as soon as practicable thereafter.
- (d) “Contingent Annuitant Annuity” means an annuity that is the Actuarial Equivalent of the form of annuity provided under Section 9.2 which provides a reduced monthly benefit to the Affected Employee for life, and, upon his death, an annuity for the life of his designated Beneficiary in a monthly amount equal to one of the following: fifty percent (50%), seventy-five percent (75%), or one hundred percent (100%) of the amount payable to the Affected Employee during his life.

#### Section 10 - Miscellaneous

- 10.1 Receipt and Release for Payments - Any payment to any Affected Employee, his surviving Spouse or to his legal representative or to any committee appointed for such Affected Employee or surviving Spouse in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of such benefit claim under the Plan. As

a condition precedent to the payment, such Affected Employee, surviving Spouse, legal representative or committee may be required to execute a receipt and release therefor in such form as shall be determined by the Plan Administrator.

- 10.2 Dispute as to Benefit Payments - Upon written notice to the Plan Administrator that there is a dispute as to the proper recipient of any benefits not yet distributed under the Plan, the Plan Administrator may in his sole discretion enter into any arrangement necessary to prevent the benefits from being paid to the wrong party until the dispute shall have been determined by a court of competent jurisdiction or settled by the claimants concerned.
- 10.3 No Contract of Employment - Nothing herein contained shall be construed as giving any Affected Employee the right to be retained in the service of the Company, nor upon dismissal or upon his voluntary Termination of Employment, to have any right or interest in this Plan other than as provided herein.
- 10.4 Commutation of Benefit - If the amount of the annual retirement benefit payable hereunder to any Affected Employee or his surviving Spouse is less than five thousand dollars (\$5,000) per year, payment of the Actuarial Equivalent of such payments may be made in a lump sum in full settlement of all sums payable hereunder.

#### Section 11 - Amendment or Discontinuance

- 11.1 Amendment of Plan – Except as otherwise provided in Section 11.1(b) below, unless otherwise stated in a particular amendment, Litton Industries, Inc., or its corporate successor, is designated the agent for the Company to alter, amend or change the Plan on behalf of all the Participating Divisions and Subsidiaries enumerated in Section 2; and each Participating Division or Subsidiary agrees, so long as it shall be a Participating Division or Subsidiary under the Plan, to be governed by the resolutions of the agent acting on behalf of the Participating Divisions and Subsidiaries. The Company may amend the Plan in its sole discretion in any manner or at any time. No amendment to the Plan shall retroactively adversely affect benefits to which the Affected Employees are entitled.
- 11.1(b) On or after a Change of Control, any amendment, termination, or suspension of the Plan shall be effective only upon the written consent of at least eighty-five percent (85%) of Affected Employees.
- 11.2 Freezing Plan Benefits - The Company intends and expects to continue the Plan indefinitely, but necessarily reserves the right at any time to discontinue, in whole or part, future benefits under the Plan. No Affected Employee shall have any rights to benefits beyond the freeze date. Solely for purposes of computing the Affected Employee's vesting under Section 6.4, Year(s) of Service, if any, with the Company after the freeze date shall be taken into account.

- 11.3 Termination of Plan - The Company intends and expects to continue the Plan indefinitely, but necessarily reserves the right at any time or times to terminate the Plan (including the partial termination of the Plan). If the Plan is so terminated and is not continued by a successor employer or merged into another plan of the Company or a successor employer, each Affected Employee who is employed by the Company at such time shall be vested one hundred percent (100%) in his annual retirement benefit, notwithstanding the actual number of his Year(s) of Service.
- 11.4 Merger or Consolidation - In the event of any merger or consolidation of the Plan with, any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Affected Employees of this Plan, each Affected Employee shall (if either this Plan or the other Plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).
- 11.5 Contractual Obligation - The Company makes a contractual obligation that any amendment, suspension, or termination of the Plan shall comply with the terms of Section 11.1(b).

## Section 12 - Plan Administration

### 12.1 Plan Administrator

- A. General – Except as otherwise provided by Section 13.6, a Plan Administrator appointed by and serving at the pleasure of the Board of the Company shall be responsible for the supervision and control of the operation and administration of the Plan. The Plan Administrator shall not have the right to alter or change any terms of the Plan, such right being retained solely by the Board of the Company.
- B. Specific Powers and Duties - The Plan Administrator shall have all powers and duties, express and implied, necessary to carry out the supervision and control of the Plan, as provided above, which shall include, but not by way of limitation, the following:
1. To interpret the Plan and to decide any and all matters arising hereunder; including the right to remedy possible ambiguities, inconsistencies or omissions; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Affected Employees similarly situated;
  2. To compute the amount of retirement benefit which shall be payable to any Affected Employee, Spouse, or Beneficiary in accordance with the provisions of the Plan;
  3. To authorize payments under the Plan; and

4. To establish a claims procedure to provide each Affected Employee or Beneficiary a full and fair review of any denial, in whole or part, of a claim for benefits.

### Section 13 – Change of Control Provisions

13.1 Change of Control – On or after a Change of Control, no additional Affected Employees shall be provided benefits under the Plan.

#### 13.2 Eligibility for Retirement Benefits

- (d) Change of Control – Except as otherwise provided by Section 13.2(e) below, as of a Change of Control, an Affected Employee shall be fully vested in his or her benefit in accordance with Section 13.3 and there shall be a waiver of any condition concerning eligibility for payment of an Annual Benefit that requires (1) the filing of any election, (2) the attainment of a specified age, (3) an agreement not to engage in competitive activities with the Company, (4) satisfaction of any other terms or conditions or the application of any benefit reductions otherwise provided, and (5) termination of employment with the Company in order to begin receiving an Annual Benefit.
- (e) Benefits Accrued After a Change of Control - The provisions of Section 13.2(d) above shall apply to any benefits accrued by an Affected Employee after a Change of Control except that the waiver of the conditions of having to file an appropriate election and to incur a termination of employment with the Company shall not apply with respect to any benefits accrued by an Affected Employee after a Change of Control.

13.3 Vesting – Change of Control – Upon a Change of Control and thereafter, an Affected Employee shall be vested in his or her Annual Benefit regardless of his or her years of Year(s) of Service or age.

13.4 Benefit Forms after April 2, 2001 - This Section applies to benefits paid under this Plan after April 3, 2001. It applies to a Participant's entire Plan benefit, regardless of when it accrued.

- (a) Affected Employees who had Attained Retirement as of April 3, 2001. For any Affected Employee (or beneficiary of an Affected Employee) who had attained Retirement as of April 3, 2001, benefit payments under this Plan will continue to be paid in the benefit form described in (1) below, unless he or she elects otherwise under (2) below.
  - (1) Default Form. Unless otherwise elected under (2), a Participant described in (a) will continue to receive his or her Plan benefits in the form in which they were being paid as of April 2, 2001.

- (2) Alternative Form. A Participant described in (a) may receive his or her Plan benefits in a lump sum if he or she timely elects to do so in a manner prescribed by the Plan Administrator and subject to the Plan Administrator's discretion to pay the benefit in another form.
- (b) Active Affected Employees as of April 3, 2001 Who Terminate Before October 1, 2003. For any Affected Employee who was accruing a benefit under the Plan as of April 3, 2001 and terminates employment with the Northrop Grumman Corporation controlled group before October 1, 2003, Plan benefits accrued before April 3, 2001 are payable in the benefit form described in (1) below, unless he or she elects otherwise under (2) below. Plan benefits accrued after April 2, 2001 are payable only under (1) for Affected Employees described in this subsection.
- (1) Default Form. Unless otherwise elected under (2), an Affected Employee described in (b) will receive his or her Plan benefits in a lump sum.
- (2) Alternative Form. An Affected Employee described in (b) may receive his or her Plan benefits in a benefit form described in Section 9 if he or she timely elects to do so in a manner prescribed by the Plan Administrator.
- (c) Active Affected Employees as of April 3, 2001 Who Have a Termination of Employment After September 30, 2003. For any Affected Employee who was actively accruing a Plan benefit as of April 3, 2001 and who terminates employment with the Northrop Grumman Corporation controlled group after September 30, 2003, Plan benefits accrued after April 2, 2001 are payable under Section 9.1 or 9.2, whichever applies, unless the Participant timely elects, in accordance with the Plan Administrator's rules, to receive Plan benefits in another form described in Section 9 or one of the forms provided in the Litton Industries, Inc. Restoration Plan 2. Plan benefits accrued before April 3, 2001 are payable in the benefit form described in (b)(1), unless he or she elects otherwise under (b)(2).

#### 13.5 Payments to Trust

- (a) Mandatory Contribution - Upon a Change of Control, the Company shall make Mandatory Contributions to the Trustee by wire transfer in immediately available funds of United States dollars. A Mandatory Contribution shall be made as soon as possible upon the Change of Control, but in no event more than ten days from the date of the Change of Control. In addition, a Mandatory Contribution shall be made every six months thereafter, provided that the calculation of the Mandatory Contribution on the sixth-month date yields a positive dollar amount. Mandatory Contributions shall continue to be required semi-annually until all Annual Benefits have been paid to all Affected Employees and Beneficiaries. The Company shall immediately notify the Committee in writing when payment of the Mandatory Contribution is made to the Trustee.

(b) Continuing Obligation of Company - Subsequent to the payment of a Mandatory Contribution, Affected Employees, retired Affected Employees and, to the extent they are entitled to benefit payments, their Beneficiaries shall be paid benefits under the Plan from the Trust pursuant to the Trust Agreement, but in no event shall the making of a Mandatory Contribution relieve the Company of its obligation under this Plan.

13.6 Administrative Procedures - These Administrative Procedures only take effect upon and after Change of Control. In all other cases, the Administrative Procedures of Section 12 of the Plan shall be those used.

(a) Notice of Denial - If the Committee determines that any person who had submitted a claim for payment of benefits under the Plan is not eligible for payment of benefits or, if applicable, is not eligible for payment of benefits in the form requested, then the Committee shall, within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the claimant of the denial of the claim. Such notice of denial: (1) shall be in writing; (2) shall be written in a manner calculated to be understood by the claimant; and (3) shall contain (A) the specific reason or reasons for denial of claim; (B) a specific reference to the pertinent Plan provisions or administrative rules and regulations upon which the denial is based; (C) a description of any additional material or information necessary for the claimant to perfect the claim; and (D) an explanation of the Plan's appeal procedures.

(b) Review Procedures - Within 90 days of the receipt by the claimant of the written notice of denial of the claim, or if the claim has not been granted or denied within 120 days of the claimant's original claim, the claimant may file a written request with the Board that it conduct a full and fair review of the denial of the claimant's claim for benefits. The claimant's written request must include a statement of the grounds on which the claimant appeals the original claim denial. The Board shall deliver to the claimant a written decision on the claim promptly, but not later than 60 days after the receipt of the claimant's request for review, except that if there are special circumstances that require an extension of time for processing, the 60-day period shall be extended to 120 days, in which case written notice of the extension shall be furnished to the claimant prior to the end of the 60-day period.

13.7 Enforcement

(a) Right to Enforce - The Company's obligations under the Plan may be enforced by the filing of an action by any Affected Employee or by any Affected Employee's Spouse, Beneficiary, or personal representative.

(b) Attorneys Fees and Costs - If, on or after a Change of Control, any claimant is denied a claim for benefits under the Plan, and the claimant requests a review under the procedures described in Section 13.6(b), or files a claim in a court of law or any other tribunal to enforce any obligation of the Company under this Plan,

which is based on a failure to administer the Plan in accordance with its terms, including the requirement that the Company make a Mandatory Contribution to the Trust, the Company shall pay such claimant all attorneys fees and costs incurred in connection with the claim, regardless of the outcome of the claim, provided that the claim is not frivolous. All attorneys fees and costs under this Section 13.7(b) shall be paid by the Company as they are incurred by the claimant, but no later than thirty (30) days from the date that the claimant submits a bill or other statement to the Company.

- (c) Interest - If any claimant prevails in a review procedure described in Section 13.7(b), or if a claimant prevails in an action in a court of law or any other tribunal to enforce the payment of benefits under the Plan, the Company shall pay interest to the claimant on any unpaid benefits accruing from the date that benefit payments should have commenced and continuing until the date that such owed and unpaid benefits are paid to the claimant in full. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to one percent, plus the prime rate reported by the Wall Street Journal.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human  
Resources and Administrative Officer

Appendix 1 – Participating Divisions and Subsidiaries

- 1.1 The Participating Divisions and Subsidiaries which comprise the Company and their respective participating dates are as described in Section 1.3.
- 1.2 When the name or status of a Participating Division or Subsidiary is changed, the change shall be deemed to have been made automatically in the Plan.

<u>Participating Division and Subsidiaries</u>	<u>Participating Date</u>
Litton Industries Inc.	
Corporate Office	January 1, 1987
Erie Marine	January 1, 1987
Ingalls Shipbuilding, Inc. Salaried Employees	January 1, 1987
Litton Italia, S.P.A.	January 1, 1987
Litton International Development Corporation	
Data Command Systems	January 1, 1987
Litton Worldwide Services	
Aero Products Division	January 1, 1987
Litton Korea, Ltd.	
All U.S. Employees	January 1, 1987
Litton Precision Products International – U.K.	
All U.S. Employees	January 1, 1987
Litton Systems, Inc.	
Advanced Circuitry	January 1, 1987
Aero Products	January 1, 1987
Airtron Division	January 1, 1987
Amecom Division	January 1, 1987
Clifton Encoder	January 1, 1987
Clifton Instruments & Life Support	
Non-Union	January 1, 1987
Union	May 1, 1987
Clifton Precision	January 1, 1987
Data Systems	January 1, 1987
Electronic Devices	January 1, 1987
Guidance and Control Systems Division	January 1, 1987
Kester Solder	January 1, 1987
Laser Systems	January 1, 1987



Litton Computer Services	January 1, 1987
Woodland Hills, Mountain View, Reston	January 1, 1987
Lexington	August 3, 1987
Poly-Scientific	January 1, 1987
Potentiometer	January 1, 1987
Systems Administration	January 1, 1987
VEAM	January 1, 1987
Winchester Electronics	January 1, 1987
Winchester/USECO	January 1, 1987
Litton Industrial Automation Systems, Inc.	
Automated Guided Vehicles	January 1, 1987
Automated Systems, Hebron, Kentucky	January 1, 1987
Diamond & CBN Products	January 1, 1987
Engineered Systems	January 1, 1987
Industrial Automation Systems	January 1, 1987
Integrated Automation	September 30, 1987
Integrated Systems, Florence, Kentucky	January 1, 1987
Kimball Systems	January 1, 1987
Lamb Technicon	July 1, 1987
Litton Industrial Services, Inc.	January 1, 1987
Lucas Machine	January 1, 1987
New Britain Machine	January 1, 1987
Process Conveyor	January 1, 1987
Software Systems	January 1, 1987
Unit Handling Systems/Conveyor Systems	January 1, 1987

APPENDIX A

LITTON INDUSTRIES INC.

ASSUMPTIONS TO CALCULATE  
THE PRESENT VALUE OF REMAINING RESTORATION PLAN BENEFITS

<u>ITEM</u>	<u>PAYMENT ASSUMPTIONS</u>	<u>OTHER REQUIRED DATA</u>
Age at Retirement (for accrued benefits)	Current Age	
Mortality (Post-retirement only)	83 GAM (Unisex)	
Present Value Interest Rate	See Note 1	Calculation Date
Retirement Age	Earliest ages to receive unreduced benefits	
Form of Payment	Single Life Annuity/Lump Sum	For retirees with other than Life Annuity: Spouse DOB; J&S %; 10-Year certain data (commencement date)
Interest Rate of Annuity Equivalent	See Note 1	Litton Industries, Inc. Retirement Plan "B", Interest Rate, Qualified Plan J & S Factor Tables, LRP and FSSP Annuity Equivalent factors.

FORMULA Retirement Account Restoration Plan Benefit plus the Savings Account Restoration Plan Benefit both multiplied by the Present Value Factor

WHERE Part I Restoration Plan Benefit equals 85% multiplied by the Retirement Account Restricted Amount minus (Retirement Account Annuity Equivalent Factor for age at Retirement multiplied by the Retirement Account Restricted Amount with Interest)

Savings Account Annuity Equivalent Factor for age at Retirement multiplied by the Savings Account Restricted Amount with Interest.

Present Value Factor equals Deferred to Retirement Age Actuarial Factor Based on the Present Value Interest Rate and the Form of Payment Specified Above.

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**Note 1:** For benefits payable as a lump sum, the interest rate shall be the average yield on non-callable, coupon 10-Year AAA California Municipal Bonds offered to retail investors by Bonds Online (<http://www.bonds-online.com>) as of 1p.m. EST immediately after the completion of the Change of Control. For benefits payable as an annuity, the interest rate shall be the discount rate used for funding purposes by the Litton Industries, Inc. Retirement Plan "B" as of the Change of Control Date.

**Appendix Regarding Acquisition Of Litton Industries, Inc.**

1. In General. This Appendix provides special rules concerning the acquisition by Northrop Grumman Corporation of Litton Industries, Inc. (the “Litton Acquisition”).
  - (a) Purpose. This Appendix prevents employees of the Northrop Grumman Group from receiving coverage or any credit for service or compensation under this Plan until the Plan and this Appendix are explicitly amended to provide otherwise.
  - (b) General Override. The provisions of this Appendix override any contrary provisions elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions.
  - (c) Definitions. For purposes of this Appendix:
    - (1) The term “Northrop Grumman Group” generally means Northrop Grumman Corporation and any entity affiliated with it under sections 414(b), (c), (m) or (o) of the Internal Revenue Code.
      - (A) With reference to periods before the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group.
      - (B) With reference to periods after the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group, but not including Litton Industries, Inc. (and any successor entity) and its subsidiaries.
    - (2) The term “Litton Acquisition Date” means the date on which Northrop Grumman Corporation purchased a majority interest in the shares of Litton Industries, Inc. pursuant to the exchange offer filed with the Securities and Exchange Commission on Form S-4.
2. Acquisition of Litton Industries, Inc. Effective as of the Litton Acquisition Date, Litton Industries, Inc. was acquired and became a subsidiary of Northrop Grumman Corporation.
3. Plan Sponsor. As of the Litton Acquisition Date, Northrop Grumman Corporation adopted and became the sponsor of the Plan.
4. Corporate Authority. During the period on and after the Litton Acquisition Date, all Plan references to the Board of Directors of Litton Industries, Inc. will instead be deemed to refer to the Board of Directors of Northrop Grumman Corporation.

5. Amendment and Termination Authority. As of the Litton Acquisition Date:
  - (a) Northrop Grumman Corporation through its Board of Directors will have sole authority to amend the Plan in its discretion. This authority may be delegated and re delegated.
  - (b) Northrop Grumman Corporation will have sole authority to terminate the Plan.
6. Coverage. No individuals who were employees of the Northrop Grumman Group immediately before the Litton Acquisition Date may participate in this Plan. No individuals who became employees of the Northrop Grumman Group after the Litton Acquisition Date may participate in this Plan.
7. Service With the Northrop Grumman Group. Service with the Northrop Grumman Group before or after the Litton Acquisition Date will not be counted as service for any purpose.
8. Compensation. No compensation for services performed for the Northrop Grumman Group will be treated as compensation under this Plan.
9. Nonduplication. Employees are not covered by this Plan for any Plan Year or portion of a Plan Year if they are actively participating under a similar plan of the Northrop Grumman Group.
  - (a) Solely for purposes of this section, employees are active participants in another plan if they are generally eligible to make or receive contributions or accrue benefits under the plan, or would be, but for limits in the plan.
  - (b) If an employee could be covered by two plans, both of which include this provision (or a similar provision), the plan administrators will resolve the discrepancy to allow eligibility for one plan or another but not both.
10. Termination of Employment. No termination of employment will be deemed to occur as a result of the Litton Acquisition, any corporate reorganization incident to the Litton Acquisition, any later liquidation of Litton Industries, Inc. (or any successor entity) or its subsidiaries or any transfer of assets or liabilities between members of the group consisting of Northrop Grumman Corporation and its subsidiaries.
  - (a) Similarly, there will be no “separation from service” or “severance from service” or event described by a similar term.
  - (b) The provisions of this Section are not intended to modify any service-counting provisions in the Plan, to extend service credits when they would not otherwise be given, nor to override Section 7 above.

## Appendix Regarding Investment Matters

1. In General. This Appendix gives responsibility for investment and trust matters (other than trustee duties) in connection with the Plan to an Investment Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, unless prohibited by change-in-control provisions or collective bargaining agreements.
2. Investment Fiduciary. The named fiduciary for investment and trust matters (other than trustee duties) is the Investment Committee.
3. The Investment Committee. The Investment Committee shall consist of not less than three persons appointed from time to time by the Board of Directors described in (a) (for purposes of this Appendix, the "Board") or its delegate.
  - (a) The "Board" for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then "Board" refers to the Board of Directors of that corporation.
  - (b) The members of the Investment Committee shall elect one of their members as Chairman and shall appoint a Secretary and such other officers as the Investment Committee may deem necessary.
  - (c) The Investment Committee may employ such advisors, including investment advisors, as it may require in carrying out the provisions hereof.
  - (d) Except as otherwise provided in these resolutions, each member of the Investment Committee shall continue in office until the expiration of three years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed annually.
  - (e) If at the end of his or her latest three year term, a member is not reappointed, he or she will continue to serve until the date his or her successor is appointed.
  - (f) A member may resign at any time by delivering a written resignation to the Corporate Secretary of Northrop Grumman Corporation and to the Secretary of the Investment Committee.
  - (g) A member may be removed by the Board at any time for any reason.
4. Alternate Members. The Board may from time to time appoint one or more persons as alternate members of the Investment Committee to serve in the absence of members of the Investment Committee, in the manner hereinafter stated, with the same effect as if they were members.
  - (a) The Chairman of the Investment Committee, in his or her discretion, shall designate which of the alternate members shall attend any particular meeting of

the Investment Committee for the purpose of obtaining a quorum or full attendance as the Chairman may elect.

(b) Each alternate member shall have all the rights, powers and obligations of a member in respect to the business of meetings which he or she so attends.

5. Actions by the Committee. A majority in number of the members of the Investment Committee at the time in office, represented at a meeting by members or alternate members or both, shall constitute a quorum for the transaction of business. Any determination or action of the Investment Committee, including allocations and delegations of responsibilities, may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members then in office.

6. Investment Responsibilities.

(a) The Investment Committee, in its capacity as named fiduciary for investment matters, may, in its discretion, appoint one or more investment managers who shall have, until terminated by the Investment Committee, the power to manage, acquire and dispose of all or any part of the assets of the Plans allocated to an investment manager by the Investment Committee.

(b) The Investment Committee shall have the power to hire and terminate trustees.

(c) The Investment Committee shall periodically review and evaluate the investment performance of each trustee and investment manager and shall advise the Board of such review and evaluation.

(d) In the event that investment powers are divided among two or more trustees or investment managers, the Investment Committee shall formulate investment policies for such trustees and investment managers to diversify the investments of the Plans so as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so.

(e) The Investment Committee shall establish a funding policy and method to carry out the Plan's objectives. This procedure is to enable the Plan's fiduciaries to determine the Plan's short- and long-term financial needs and to communicate these requirements to the appropriate persons.

7. Liability and Indemnity.

(a) No Investment Committee member who has a fiduciary responsibility, or to whom such responsibility is allocated, as provided in these resolutions, by appointment or otherwise, shall be liable for any act or omission or investment policy of any other fiduciary except as provided in Section 405 of Employee Retirement Income Security Act of 1974.

- (b) To the extent permitted by law, Northrop Grumman Corporation shall indemnify and hold harmless members of the Board and the Investment Committee and employees of Northrop Grumman Corporation or its subsidiaries who act for the Investment Committee, as well as former members and former employees, with respect to their investment responsibilities.



## Appendix Regarding Plan Administration

1. In General. This Appendix gives responsibility for plan administration (other than investment and trust matters) to an Administrative Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions or collective bargaining agreements.
2. Plan Administrator. The general administration of the Plan is the responsibility of the Administrative Committee. The Committee is the plan administrator, and the Committee and each of its members are named fiduciaries. Committee members and all other Plan fiduciaries may serve in more than one fiduciary capacity with respect to the Plan.
3. The Administrative Committee. The Administrative Committee consists of at least three members appointed by the Board of Directors described in (a) (for purposes of this Appendix, the "Board") or its delegate. The members of the Committee shall serve without compensation for such service, unless otherwise determined by the Board.
  - (a) The "Board" for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then "Board" refers to the Board of Directors of that corporation.
  - (b) Except as otherwise provided in this Appendix, each member of the Committee shall continue in office until the expiration of 3 years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed.
  - (c) If at the end of his or her latest term as a member of the Committee, a member is not reappointed, he or she will continue to serve on the Committee until the date his or her successor is appointed.
  - (d) A member may be removed by the Board at any time and for any reason.
4. Resignation of Committee Members. A member of the Administrative Committee may resign at any time by delivering a written resignation to the Secretary of the corporation and to the Secretary of the Committee. The member's resignation will be effective as of the date of delivery or, if later, the date specified in the notice of resignation.
5. Conduct of Business. The Administrative Committee shall elect a Chairman from among its members and a Secretary who may or may not be a member. The Committee shall conduct its business according to the provisions of this Appendix and shall hold meetings from time to time in any convenient location.
6. Quorum. A majority of all of the members of the Administrative Committee constitutes a quorum and has power to act for the entire Committee.

7. Voting. All actions taken by the Administrative Committee shall be by majority vote of the members attending a meeting, whether physically present or through remote communications. In addition, actions may be taken by written consent of a majority of the Committee members without a meeting. The agreement or disagreement of any member may be by means of any form of written or oral communications.
8. Records and Reports of the Committee. The Administrative Committee shall keep such written records as it shall deem necessary or proper, which records shall be open to inspection by the Board.
9. Powers of the Committee. The Administrative Committee shall have all powers necessary or incident to its office as plan administrator. Such powers include, but are not limited to, full discretionary authority to:
  - (a) prescribe rules for the operation of the Plan;
  - (b) determine eligibility;
  - (c) comply with the requirements of reporting and disclosure under ERISA and any other applicable law, and to prepare and distribute other communications to participants (and, if applicable, beneficiaries) as a part of Plan operations;
  - (d) prescribe forms to facilitate the operation of the Plan;
  - (e) secure government approvals for the Plan (if applicable);
  - (f) construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions, and to determine the facts underlying any claim for benefits;
  - (g) determine the amount of benefits, and authorize payments from the trust;
  - (h) maintain records;
  - (i) litigate, settle claims, and respond to and comply with court proceedings and orders on the Plan's behalf;
  - (j) enter into contracts on the Plan's behalf;
  - (k) employ counsel and others to render advice about any responsibility that the Committee has under the Plan;
  - (l) exercise all other powers given to the plan administrator under other provisions of the Plan.
10. Allocation or Delegation of Duties and Responsibilities. The Administrative Committee and the Board may:
  - (a) Employ agents to carry out nonfiduciary responsibilities;

- (b) Employ agents to carry out fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) under the rules of section 11 of this Appendix;
  - (c) Consult with counsel, who may be counsel to Northrop Grumman Corporation;
  - (d) Provide for the allocation of fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) among their members under the rules of section 11 of this Appendix; and
  - (e) In particular, designate one or more officers as having responsibility for designing and implementing administrative procedures for the Plan.
11. Procedure for the Allocation or Delegation of Fiduciary Duties. The rules of this section of the Appendix are as follows:
- (a) Any allocation or delegation of fiduciary responsibilities must be approved by majority vote of the members of the Administrative Committee, in a resolution approved by the majority.
  - (b) The vote cast by each member of the Administrative Committee for or against the adoption of such resolution must be recorded and made a part of the written record of the proceedings.
  - (c) Any delegation or allocation of fiduciary responsibilities may be changed or ended only under the rules of (a) and (b) of this section of the Appendix.
12. Expenses of the Plan. All reasonable and proper expenses of administration of the Plan including counsel fees will be paid by the employers participating in the Plan.
13. Indemnification. Northrop Grumman Corporation agrees to indemnify and reimburse, to the fullest extent permitted by law, members and former members of the Board; members and former members of the Administrative Committee; employees and former employees of Northrop Grumman Corporation or its subsidiaries who act (or acted) for the Committee, Northrop Grumman Corporation or another employer participating in the Plan for any and all expenses, liabilities, or losses arising out of any act or omission relating to the rendition of services for or the management and administration of the Plan, except in instances of gross misconduct.
14. Extensions of Time Periods. For good cause shown, the Administrative Committee may extend any period set forth in the Plan for taking any action required of any participant or beneficiary to the extent permitted by law.
15. Claims Procedures. No benefits will be paid under the Plan unless a proper claim is submitted to the Administrative Committee. The Committee will meet periodically to review applications for benefits submitted to it. The procedures for claim denials and for seeking review of a denial or partial denial of a claim for benefits are described in this section of the Appendix.
- (a) Notification to claimant of decision. Notice of decision on any claim for benefits shall be furnished to the claimant within 90 days after receipt of the claim by the Committee. A claimant may deem his or her claim to be denied for purposes of further review described below in the event a decision is not furnished to the claimant within such 90-day period.

- (b) Content of notice. Every claimant who is denied a claim for benefits in whole or in part shall receive a written notice setting forth in a manner calculated to be understood by the claimant:
- (1) The specific reason or reasons for the denial;
  - (2) Specific reference to pertinent Plan provisions on which the denial is based;
  - (3) A description of any additional material or information necessary for the claimant to perfect the claim, and an explanation of why such material or information is necessary; and
  - (4) Appropriate information as to the steps to be taken if the participant or beneficiary wishes to submit his or her claim for review including the time limits set forth in subsections (e) and (f).
- (c) Review procedure. A claimant whose claim has been denied in whole or in part, or his or her duly authorized representative, may:
- (1) Request a review of the denied claim upon written application to the Committee setting forth:
    - (A) All of the grounds upon which his or her request for review is based and any facts in support of his or her request, and
    - (B) Any issues or comments which the applicant deems pertinent to his or her application; and
  - (2) Review pertinent documents.
- (d) Hearings. In appropriate cases, the Committee may provide for a hearing to be conducted with respect to the review of any claim. In such event, the Committee shall give notice of such hearing to the claimant affected, as well as the procedures for the hearing, such as the length of the hearing, whether witnesses may be presented, whether cross-examination will be allowed, and any other matters which the Committee considers pertinent.
- (e) Time For Seeking Review. A claimant may seek review of a denied claim within 65 days after receipt by the claimant of written notification of the denial or partial denial of the claim. Under extraordinary circumstances, the Plan may extend this time period.

(f) Decision on review.

- (1) A decision by the Committee shall be made promptly, and shall not ordinarily be made later than 60 days after the Committee's receipt of a request for review.
- (2) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or other documents governing the Plan on which the decision is based.
- (3) The decision on review shall be furnished to the claimant within the appropriate time described in paragraph (1) of this subsection. If the decision on review is not furnished within such time, the claim shall be deemed denied on review.
- (4) The decision of the Committee on any application for benefits shall be final and conclusive upon all persons if supported by substantial evidence in the record.

(g) Disclosure of Claim Procedures. All Plan participants shall be given a description of the claims procedures, which shall include a description of the time limits set forth in subsections (a), (e) and (f), within a reasonable time after commencing participation in the Plan.

(h) Delegation. The Committee may delegate its responsibilities under this subsection to a subcommittee, individual, or other person.

16. Qualified Domestic Relations Orders. The Administrative Committee shall establish procedures for handling domestic relations orders.

17. Amendments. The Administrative Committee may amend the Plan through written resolution to make the changes identified in subsection (a). Any amendments must be made in accordance with the rules of subsections (b), (c) and (d).

(a) The Committee may amend the Plan:

- (1) to the extent necessary to keep the Plan in compliance with law;
- (2) to make clarifying changes;
- (3) to correct drafting errors;
- (4) to otherwise conform the Plan documents to the company's intent;
- (5) to change the participation and eligibility provisions;

- 
- (6) to change plan definitions, formulas or employee transfer rules;
  - (7) with respect to administrative, procedural and technical matters including benefit calculation procedures, distribution elections and timing, other elections, waivers, notices, and other ministerial matters; and
  - (8) with respect to management of funds.
- (b) Before adopting any Plan amendment, the Committee must obtain:
- (1) a cost analysis of the proposed amendment;
  - (2) a legal opinion that the amendment does not violate ERISA or other applicable legal requirements;
  - (3) a tax opinion that the amendment will not result in the Plan's disqualification;
  - (4) approval of the amendment from the Corporate Vice President and Chief Financial Officer of Northrop Grumman Corporation; and
  - (5) approval of the amendment from the Corporate Vice President and Chief Human Resources and Administrative Officer of Northrop Grumman Corporation.
- (c) The Committee must refer to the Board for approval any amendments that:
- (1) will result in an increase in costs on an annual basis in excess of \$5,000,000; or
  - (2) will result in a decrease in costs on an annual basis in excess of \$5,000,000.
- (d) The Committee's amendment authority may not be delegated.
- (e) Nothing in this section 17 of the Appendix is intended to modify the amendment authority of any company, board or directors, officer or other committee.

LITTON INDUSTRIES, INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS  
LITTON INDUSTRIES, INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
(Amended and Restated Effective as of October 1, 2004)

	<u>Page</u>
ARTICLE I — INTRODUCTION AND PURPOSE	
ARTICLE II — DEFINITIONS	
Section 2.1 Active Participant	2
Section 2.2 Actuarial Equivalent	2
Section 2.3 Annual Compensation	2
Section 2.4 Average Compensation	2
Section 2.5 Base Compensation Amount	3
Section 2.6 Beneficiary	3
Section 2.7 Board	3
Section 2.8 Change of Control	3
Section 2.9 Chief Executive Officer	5
Section 2.10 Committee	5
Section 2.11 Company	5
Section 2.12 Death Benefit	5
Section 2.13 Dependent Children	6
Section 2.14 Director	6
Section 2.15 Disability	6
Section 2.16 Disability Benefit	6
Section 2.17 Mandatory Contribution	6
Section 2.18 Normal Form	6
Section 2.19 Offset Amount	6
Section 2.20 Participant	7
Section 2.21 Prior Retirement Benefit Formula	7
Section 2.22 Retired Participant	7
Section 2.23 Retirement Benefit	7
Section 2.24 Supplemental Plan	7
Section 2.25 Trust	8
Section 2.26 Trust Agreement	8
Section 2.27 Trustee	8
Section 2.28 Years of Service	8
Section 2.29 Change of Control Employment Agreement	8



ARTICLE III — PARTICIPATION		
Section 3.1	General	8
Section 3.2	Entry and Continuing Participation	8
Section 3.3	Change of Control	8
ARTICLE IV — BENEFIT ELIGIBILITY		
Section 4.1	Eligibility for Retirement Benefit	9
Section 4.2	Eligibility for Death Benefit	9
Section 4.3	Eligibility for Disability Benefit	10
ARTICLE V — CALCULATION OF BENEFITS AND VESTING		
Section 5.1	Retirement Benefit Formula	10
Section 5.2	Death or Disability Benefit Formula	10
Section 5.3	Vesting	11
ARTICLE VI — FORMS OF BENEFIT AND COMMENCEMENT OF PAYMENTS		
Section 6.1.	Retirement Benefit Forms	11
Section 6.2	Normal Form of Retirement Benefit	11
Section 6.3	Alternative Forms of Benefit	12
Section 6.4	Benefit Forms after April 2, 2001	12
Section 6.5	Amount of Death or Disability Benefit	13
Section 6.6	Commencement of Payments	14
Section 6.7	Form of Benefit Irrevocable	14
Section 6.8	Commutation of Benefits	14
ARTICLE VII — BENEFIT ELECTIONS AND BENEFICIARY DESIGNATIONS		
Section 7.1	General	14
Section 7.2	Form of Benefit Elections	14
Section 7.3	Beneficiaries	14
ARTICLE VIII — ADMINISTRATION		
ARTICLE IX — SOURCE OF PAYMENTS		
Section 9.1	General Assets of Company	15
Section 9.2	Payments to Trust	15
ARTICLE X — CLAIMS AND ENFORCEMENT		
Section 10.1	Administrative Procedures	16
Section 10.2	Enforcement	16

---

ARTICLE XI — AMENDMENT AND TERMINATION		
Section 11.1	Amendment and Termination of this Supplemental Plan	17
Section 11.2	Contractual Obligation	17
ARTICLE XII — MISCELLANEOUS		
Section 12.1	Employment Rights	18
Section 12.2	Rights of the Committee	18
Section 12.3	Benefit Statements	18
Section 12.4	Assignment	18
Section 12.5	Applicable Law	18
Section 12.6	Effective Date	18
Section 12.7	Entire Agreement	18
Section 12.8	Terms	18
Appendix — Assumptions to Calculate Present Value of Remaining Projected SERP Benefits		
Appendix Regarding Acquisition Of Litton Industries, Inc.		
Appendix Regarding Investment Matters		
Appendix Regarding Plan Administration		

## ARTICLE I — INTRODUCTION AND PURPOSE

The Litton Industries, Inc. Supplemental Executive Retirement Plan (the “Supplemental Plan”) is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to incorporate into the Supplemental Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Supplemental Plan.

The Supplemental Plan was last restated effective August 1, 2000. Since then the Supplemental Plan has been amended as follows:

- (a) in December 2000 to amend the definition of “average compensation” in the event of a change of control;
- (b) in March 2001 to change the form of benefits to be received by participants following a change of control;
- (c) in April 2001 to address (1) the acquisition of Litton Industries, Inc. by Northrop Grumman Corporation, (2) investment matter changes as a result of this acquisition, and (3) plan administration changes as a result of this acquisition;
- (d) in August 2001 to modify the plan administration changes resulting from the acquisition of Litton Industries, Inc.; and
- (e) in December 2003 to freeze the Supplemental Plan as of December 31, 2003 and modify the benefit forms available under the Supplemental Plan effective as of April 3, 2001.

Litton Industries, Inc. established the Supplemental Plan as of August 1, 1995 and restated it as of August 1, 2000. Litton Industries, Inc. was later acquired by Northrop Grumman Corporation. Effective as of January 1, 2003, it was merged into Northrop Grumman Systems Corporation (the “Company”), which became the sponsor of the Supplemental Plan.

Effective as of December 31, 2003, the Supplemental Plan is frozen. No additional Participants are permitted after that date, and each participant’s benefits are frozen at their December 31, 2003 dollar amount.

The purpose of this Supplemental Plan is to provide for supplemental retirement benefits to certain key executive employees of the Company and thereby encourage those employees to continue providing services to the Company until their retirement. This Supplemental Plan is intended to provide benefits solely for a select group of management or highly compensated employees within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Payments under this Supplemental Plan shall be made either from the general assets of the Company, or from the assets of the Litton Industries, Inc., Supplemental Executive Retirement Plan Trust (the “Trust”), as provided under the terms of this Supplemental Plan and the Trust. It is intended that this

Supplemental Plan remain at all times an unfunded plan for purposes of ERISA and that the Trust shall constitute a grantor trust under Sections 671 through 679 of the Internal Revenue Code of 1986, as amended (the "Code").

## **ARTICLE II — DEFINITIONS**

**Section 2.1 "Active Participant"** shall mean a key executive employee who has been designated as a Participant in this Supplemental Plan pursuant to Article III, and who continues to be employed by the Company. A Participant shall not be treated as having terminated from employment during any period of military service provided the Participant recommences employment by the Company within 90 days after discharge from any such military service. A Participant shall not be treated as having terminated from employment during any authorized unpaid leave of absence not in excess of one year. A Participant shall be treated as having terminated from employment during any other period of leave of absence, unless the Committee, in its sole and absolute discretion, and subject to such terms and conditions as the Committee may specify, approves the Participant's absence. However, a Disabled or deceased Participant shall continue to be treated as an Active Participant and, thus, continue to accrue additional Years of Service until the earlier of the calendar month that the Participant attains (or would have attained) age 65, or the date that the Participant is no longer Disabled. A Participant who terminates employment with the Company and is subsequently re-employed with the Company shall not be treated as an Active Participant unless the Committee re-designates the Participant as an Active Participant.

**Section 2.2 "Actuarial Equivalent"** shall, except in the event of a Change of Control in which case the assumptions provided for on the Appendix to this Supplemental Plan shall apply, mean the definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended from time to time.

**Section 2.3 "Annual Compensation"** shall mean, for any calendar year, the amount of base pay and, incentive compensation under the Litton Industries, Inc. Performance Award Plan (or a similar plan), in either case paid, awarded, or electively deferred, for such calendar year. Amounts paid for service performed after December 31, 2003 are not treated as Annual Compensation.

**Section 2.4 "Average Compensation"** shall mean the sum, divided by three, of the total amount of Annual Compensation received by an Active Participant from the Company during the three calendar years out of the ten consecutive calendar years which yield the Active Participant the most Compensation including the calendar year in which an Active Participant terminates employment with the Company. A Disabled Participant's Average Compensation shall be calculated using the ten consecutive calendar years that include the calendar years that his or her Disability commenced. In the case of an Active Participant who dies prior to attaining age 65, the deceased Participant's Average Compensation shall be calculated using the ten consecutive calendar years that include the calendar year of the Participant's death (or Disability, in the case of a Disabled Participant who dies). If a Participant is eligible to receive payments under this Supplemental Plan but does not have three consecutive calendar years of employment, then Average Compensation is the amount obtained by dividing the sum of the total amount of Annual

Compensation of such Active Participant by the actual number of calendar years of employment. However, the Committee may determine Average Compensation for the purposes of this Section 2.4 by any other methodology which it determines to be more appropriate under the facts and circumstances.

Notwithstanding the provisions of this Section 2.4, from and after the occurrence of a Change of Control, for those Participants who are parties to a Change of Control Employment Agreement, the term "Average Compensation" is defined as the greater of (i) or (ii) below:

- (i) the highest Annual Compensation (or, in the event in which a Participant has less than one calendar year of employment, the annualized amount of the Participant's base pay plus incentive compensation under the Litton Industries, Inc. Performance Award Plan (or a similar plan) paid to, awarded to, or electively deferred by a Participant in any of the Participant's last ten consecutive calendar years, including the calendar year in which a Change of Control occurs or
- (ii) the Participant's annualized base pay plus the maximum targeted incentive compensation for the calendar year in which a Change of Control occurs.

Section 2.5 "Base Compensation Amount" shall mean the applicable dollar amount on the date that the Active Participant terminates from employment with the Company, calculated as follows:

(a) \$125,000, for the first twelve months beginning on the original effective date of this Supplemental Plan.

(b) For each twelve-month period following the period described above in Section 2.5(a), the dollar amount applicable for the immediately preceding twelve-month period increased by a percentage, which shall be the sum of (1) the percentage increase in the U.S. Department of Labor consumer price index for all urban consumers for the immediately preceding twelve-month period and (2) one percent.

(c) In the case of a deceased or Disable Participant, the Base Compensation Amount shall be the dollar amount in effect under Section 2.5(a) or (b) for the earlier of the month in which the Participant died or became Disabled.

Section 2.6 "Beneficiary" shall mean one or more persons entitled to receive payment of a benefit under this Supplemental Plan on account of a Participant's death.

Section 2.7 "Board" or "Board of Directors" shall mean the Board of Directors of Litton Industries, Inc.

Section 2.8 "Change of Control" shall mean -

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange

Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either (1) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this Section 2.7(a), the following acquisitions of stock shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of Section 2.8(c); or

(b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the date hereof whose election, or nomination subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless following such Business Combination, (1) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

Section 2.9 "Chief Executive Officer" shall mean the chief executive officer of Litton Industries, Inc.

Section 2.10 "Committee" shall mean -

(a) The Compensation and Selection Committee of the Board of Directors.

(b) Notwithstanding Section 2.10(a), upon a Change of Control, the Committee shall mean exclusively the "special administrators." The "special administrators" shall be the individuals who constituted the Company's Compensation and Selection Committee of the Board of Directors immediately prior to the Change of Control. The "special administrators" shall constitute the Committee until the last day of the eighteenth month following the month in which the Change of Control occurred. The "special administrators" shall have all rights and authority reserved to the Committee under this Supplemental Plan, including, but not limited to, the rights specified in Section 12.2.

(c) If a "special administrator" dies, becomes disabled, or resigns as "special administrator" during the period that the "special administrators" constitute the Committee, the remaining "special administrator(s)" shall continue to serve as the Committee without interruption. A successor "special administrator" shall be required only if there are less than three remaining "special administrators." If a successor "special administrator" is required, the successor shall be the individual who, at that time, (1) is not already a "special administrator," and (2) is not a Participant or currently an employee of the Company, and (3) was the member of the Board immediately prior to the Change of Control with the longest period of service on the Board, and (4) agrees to serve as a "special administrator."

(d) If a successor "special administrator" is required and there are no individuals remaining who satisfy the criteria described in Section 2.10(c), then a successor "special administrator" shall either be appointed by the Trustee or, in the Trustee's discretion, the Trustee shall submit the selection of the "special administrator(s)" to an arbitrator, the costs of which shall be borne fully by the Company, to be decided in accordance with the American Arbitration Association Commercial Arbitration Rules then in effect. If at any time, there are no remaining "special administrators," the Trustee shall act as the "special administrator" until the successor(s) is selected.

Section 2.11 "Company" shall mean Litton Industries, Inc., a Delaware corporation, and its subsidiaries, except that any reference to stock or securities of the Company shall mean only the stock or securities of Litton Industries, Inc.

Section 2.12 "Death Benefit" shall mean the benefit payable under Section 4.2(a) to the Participant's Beneficiary, if any.

Section 2.13 “Dependent Children” shall mean a son or daughter who either (a) has not attained age 19, or (b) has not attained age 23 and is a full-time student at an accredited educational institution.

Section 2.14 “Director” shall mean a member of the Board of Directors of Litton Industries, Inc.

Section 2.15 “Disability” or “Disabled” shall mean a total disability, as determined in the discretion of the Committee, that prevents an Active Participant from providing the services that he or she would normally perform for the Company.

Section 2.16 “Disability Benefit” shall mean the benefit payable under Section 4.3(a) to an Active Participant who becomes Disabled.

Section 2.17 “Mandatory Contribution” shall mean, as of a Change of Control, an amount equal to the excess of “A” over “B,” where -

(a) “A” is 120 percent of the present value of all vested benefits under this Supplemental Plan determined under the factors set forth in the Appendix to this Supplemental Plan; and

(b) “B” is the current value of the Trust as determined by the Trustee on the business day immediately preceding the day that a Mandatory Contribution is paid to the Trustee.

(c) Mandatory Contributions will not be made with respect to benefits accrued under this Supplemental Plan after the April 3, 2001 Change of Control.

Section 2.18 “Normal Form” shall mean the form of Retirement Benefit payable under Section 6.2 to a Retired Participant if the Participant has not elected another form of payment or, if applicable, the form of payment of a Retirement Benefit to the Beneficiary of a deceased Participant.

Section 2.19 “Offset Amount” shall mean the annual “primary insurance amount” and the annual “Company-provided pension.”

(a) The “primary insurance amount” shall mean the annual benefit determined under the Social Security Act that is payable to the Participant as of the calendar year that the Participant commences Retirement Benefits under this Supplemental Plan. If no “primary insurance amount” is actually paid to a Participant as of the calendar year in which the Retirement Benefit commences under this Supplemental Plan, then the “primary insurance amount” shall be deemed to be the “primary insurance amount” that would be payable at the earliest date to the Participant (or would have been payable, in the case of a deceased Participant). The “primary insurance amount” shall also include any annual retirement benefit payable under any public retirement program of a foreign country that the Committee determines is comparable in purpose to the benefits payable under the Social Security Act.



(b) Unless otherwise determined by the Committee, the “Company-provided pension” shall mean the annual amount payable to a Participant under any other defined benefit plan sponsored by the Company, which is either intended to qualify under Section 401(a) of the Code or is intended to restore benefits under such plan (excluding this Supplemental Plan). For any Participant who never participated in any other defined benefit plan sponsored by the Company, the amount of the “Company-provided pension” shall be determined as if the Participant commenced participation in any such plan for which the Participant was eligible at the earliest date on which the Participant was eligible and participated in such plan to the fullest extent possible, and withdrew his or her presumed contributions, if any, plus interest, thereon. The amount of the “Company-provided pension” described in the immediately preceding sentence shall be calculated under the terms of any such defined benefit plan that were in effect during the Participant’s deemed participation, except that a subsequent, retroactive amendment to such plan shall be taken into account only to the extent that it actually would have increased the Participant’s benefit under that plan. For any Active Participant employed by the Company as of August 1, 2000, who is at least age 65, the “Company-provided pension” shall be computed as if the Participant actually received the plan benefits as a single life annuity calculated as of the date the Participant attained age 65.

Section 2.20 “Participant” shall mean any key executive employee who has been designated as an Active Participant in this Supplemental Plan by the Committee, including a Retired Participant. New Participants may not be added to this Supplemental Plan after April 3, 2001.

Section 2.21 “Prior Retirement Benefit Formula” shall be calculated under the formula  $[(A + B) \times C] - D$ , where —

- (a) “A” is Average Compensation up to the Base Compensation Amount multiplied by 1.6 percent;
- (b) “B” is Average Compensation in excess of the Base Compensation Amount multiplied by 2.2 percent;
- (c) “C” is Years of Service limited to Years of Service for which the Participant was both employed by the Company and was at least age 40 and limited to Years of Service not in excess of 25; and
- (d) “D” is the Offset Amount.

Section 2.22 “Retired Participant” shall mean a Participant who has terminated from employment with the Company and who is vested in a Retirement Benefit.

Section 2.23 “Retirement Benefit” shall mean the benefits payable to a Participant and, if applicable, the Beneficiary of a Participant, as provided under Section 4.1.

Section 2.24 “Supplemental Plan” shall mean the Litton Industries, Inc., Supplemental Executive Retirement Plan that is described in this document and Appendices, as amended from

time to time, and including any rules and regulations promulgated by the Committee for purposes of administering this Supplemental Plan.

Section 2.25 "Trust" shall mean the Litton Industries, Inc., Supplemental Executive Retirement Plan Trust, as amended from time to time.

Section 2.26 "Trust Agreement" shall mean the terms of the agreement entered into between the Company and the Trustee that establish the Trust.

Section 2.27 "Trustee" shall mean the trustee of the Trust.

Section 2.28 "Years of Service" shall mean -

(a) The definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended from time to time.

(b) In its discretion, the Committee may: (i) compute a Participant's Years of Service by treating separate periods of employment as continuous periods of employment with the Company; (ii) credit a Participant with Years of Service in addition to the Years of Service accrued while actually employed with the Company; and (iii) credit a Participant for Years of Service solely for purposes of satisfying the vesting requirements of Section 5.3(a).

(c) Service performed after December 31, 2003 does not count toward Years of Service for benefit accrual purposes under Section 5.1. Under Section 5.3(b), all Participants became 100% vested as of the April 3, 2001 Change of Control. Therefore, Years of Service are no longer relevant for vesting purposes under Section 5.3(a).

Section 2.29 "Change of Control Employment Agreement" shall mean a Change of Control Employment Agreement between the Participant and the Company.

### **ARTICLE III — PARTICIPATION**

Section 3.1 General. Participation in this Supplemental Plan is limited solely to key executive employees of the Company, who are designated by the Committee, after nomination by the Chief Executive Officer. A key executive employee shall not be disqualified from becoming an Active Participant solely because the key executive employee is also a Director.

Section 3.2 Entry and Continuing Participation. A key executive employee shall become an Active Participant as of the date specified by the Committee. A key executive employee who is designated as an Active Participant shall continue to be an Active Participant until he or she ceases to be actively reported on a payroll system of the Company.

Section 3.3 Change of Control. On or after a Change of Control, no additional Participants shall be designated under this Supplemental Plan.

## ARTICLE IV — BENEFIT ELIGIBILITY

### Section 4.1 Eligibility for Retirement Benefit.

(a) General. A Participant shall be eligible to begin receiving a Retirement Benefit if the Participant has (i) filed an election to receive payments under Article VII; (ii) satisfied the vesting requirement of Section 5.3(a); (iii) terminated employment with the Company; and (iv) either attained age 65 or satisfied the conditions in Section 4.1(b) or (c) below.

(b) Retirement Benefits Commencing Prior to Age 65 and After Age 54. A Participant who has attained age 55, but not yet attained age 65, shall be eligible to begin receiving a Retirement Benefit only if the Committee determines, in its discretion, that the Participant has entered into and continues to satisfy an agreement not to engage in any activity or perform services for any entity in competition with a business of the Company. Such agreement not to compete with the Company's business shall terminate upon the Participant's attainment of age 65. Retirement Benefits commencing after age 54 but prior to age 62 shall be equal to the Retirement Benefit calculated pursuant to Section 5.1 reduced by one-half percent (1/2%) for each full month by which the commencement of the payment of such Retirement Benefit precedes his or her attaining age 62.

(c) Retirement Benefits Prior to Age 55. A Participant shall not be entitled to begin receiving a Retirement Benefit prior to attainment of age 55, except in the sole and absolute discretion of the Committee, and subject to such terms and conditions, including the imposition of Retirement Benefit reductions, that the Committee may specify.

(d) Change of Control. Notwithstanding the foregoing provisions of this Section 4.1 except as otherwise provided by Section 4.1(e) below, as of a Change of Control, an Active Participant shall become fully vested as provided under Section 5.3(a) and there shall be a waiver of any condition concerning eligibility for payment of a Retirement Benefit that requires (i) the filing of any election, (ii) the attainment of a specified age, (iii) an agreement not to engage in competitive activities with the Company, (iv) satisfaction of any other terms and conditions or the application of any benefit reductions described in Sections 4.1(b), and (v) termination of employment with the Company in order to begin receiving Retirement Benefits.

(e) Retirement Benefits Accrued After a Change of Control. The provisions of Section 4.1(d) above shall apply to any Retirement Benefits accrued by an Active Participant after a Change of Control except that the waiver of the conditions of having to file an appropriate election and to incur a termination of employment with the Company shall not apply with respect to any Retirement Benefits accrued by an Active Participant after a Change of Control.

### Section 4.2 Eligibility for Death Benefit.

(a) Death Prior to Age 65. The Beneficiary of an Active Participant who dies prior to attaining age 65 shall be eligible to begin receiving a Death Benefit if the beneficiary has filed a claim under Article VII. A Death Benefit shall cease on the earlier of (i) the date on which there are no individuals who are eligible to be Beneficiaries under Section 6.5(a); (ii) the first day

of the calendar month following the date on which the Participant would have attained age 65 if the Participant were still living; or (iii) the date that payment of a Retirement Benefit commences, but not including a Retirement Benefit that commences pursuant to a Change of Control.

(b) Death On or After Age 65. No Beneficiary of, an Active Participant who dies on or after attaining age 65, shall be eligible for a Death Benefit.

(c) Death of a Retired Participant. No Beneficiary of a Retired Participant shall be eligible for a Death Benefit.

Section 4.3 Eligibility for Disability Benefit.

(a) Disability Prior to Age 65. An Active Participant who becomes Disabled prior to attaining age 65 shall be eligible to begin receiving a Disability Benefit if the Disabled Participant has filed a claim under Article VII. The Disability Benefit shall cease on the earlier of (i) the first day of the calendar month following the Disabled Participant's attainment of age 62; (ii) the date on which the Committee determines that the Participant is no longer Disabled; (iii) the date of the Disabled Participant's death (in which case a Death Benefit may be payable under Section 4.2); or (iv) the date that payment of a Retirement Benefit commences, but not including a Retirement Benefit that commences pursuant to a Change of Control.

(b) Disability After Attaining Age 65. An Active Participant who becomes Disabled on or after attaining age 65 shall not be eligible for a Disability Benefit.

(c) Retired Participant. A Retired Participant shall not be eligible for a Disability Benefit.

**ARTICLE V — CALCULATION OF BENEFITS AND VESTING**

Section 5.1 Retirement Benefit Formula. A Participant's Retirement Benefit shall be calculated under the formula  $(A + B + C) \div D$ , where -

(a) "A" is Average Compensation multiplied by 3.5 percent for each Year of Service not in excess of 10 Years of Service;

(b) "B" is Average Compensation multiplied by 1.25 percent for each Year of Service in excess of 10 Years of Service but not in excess of 20 Years of Service;

(c) "C" is Average Compensation multiplied by .5 percent for each Year of Service in excess of 20 Years of Service but not in excess of 25 Years of Service; and

(d) "D" is the Offset Amount.

Section 5.2 Death or Disability Benefit Formula.

(a) Death Benefit Formula. A Death Benefit shall be equal to forty percent of the Participant's Average Compensation. If Dependent Children are the Beneficiaries of a Death Benefit, the amount of the Death Benefit payable may be reduced, as provided in Section 6.5(a).

(b) Disability Benefit Formula. A Disability Benefit shall be equal to fifty percent of the Participant's Average Compensation.

Section 5.3 Vesting.

(a) Vesting in Retirement Benefit. A Participant shall have no vested right to a Retirement Benefit prior to attaining both age 55 and five Years of Service, except that an Active Participant who dies or becomes disabled shall be fully vested as if he or she had attained age 55 with five Years of Service, regardless of his or her actual age or Years of Service at the time of his or her death or disability.

(b) Change of Control. Upon a Change of Control and thereafter, an Active Participant shall be fully vested in his or her Retirement Benefit regardless of Years of Service or age.

(c) Death or Disability Benefit Coverage. A Participant shall at all times be entitled to Death Benefit or Disability Benefit coverage while he or she is an Active Participant.

**ARTICLE VI — FORMS OF BENEFIT AND COMMENCEMENT  
OF PAYMENTS**

Section 6.1. Retirement Benefit Forms.

(a) General Rule. Unless a Participant has made an election to receive payment of Retirement Benefits in an alternative form, a Participant shall be deemed to have elected the Normal Form.

(b) Actuarial Equivalent. All forms of payment of Retirement Benefits shall be the Actuarial Equivalent of a single life annuity.

Section 6.2 Normal Form of Retirement Benefit.

(a) Single Life Annuity. The Normal Form of Retirement Benefit shall be a single life annuity for a Participant who is unmarried at the time that payment of the Retirement Benefit commences. Under a single life annuity, a Retired Participant shall receive a monthly benefit for life equal to 1/12 of his or her Retirement Benefit and all payments shall cease upon the Retired Participant's death.

(b) Joint and Survivor Annuity. If a Participant is married, the Normal Form of Retirement Benefit shall be a joint and survivor annuity (which shall be the Actuarial Equivalent of a single life annuity) for the benefit of the Participant's spouse as of the date that

payment of the Retirement Benefit commences. Under the Normal Form, a Participant shall receive a monthly benefit for life and, upon the Participant's death, the spouse, if living, shall receive a monthly benefit for life equal to 100 percent of the monthly benefit that was payable to the Participant.

(c) Deceased Participants. If a Participant dies while employed by the Company and is vested in a Retirement Benefit, the Normal Form of Retirement Benefit shall be either the benefit under Section 6.2(a) or (b), determined with regard to the Participant's marital status on the date of death. If the Normal Form of Retirement Benefit for a deceased Participant is a joint and survivor annuity (which shall be the Actuarial Equivalent of a single life annuity), then the spouse's benefit shall be calculated as if the Participant began receiving payment of the Retirement Benefit as a joint and 100-percent survivor annuity on the day preceding the commencement of Retirement Benefit payments to the spouse, and then died the following day. The Retirement Benefit shall be calculated on the basis of the age that the Participant would have attained as of the commencement date.

(d) Spousal Death Within Two Years After Retirement. If the spouse of a Participant who is married at the time payment of the Retirement Benefit commences pursuant to Section 6.2(b) should predecease such Participant not more than two (2) years after such Retirement Benefit commences, then commencing with the first Retirement Benefit payment payable as of the first day of the calendar month after the calendar month during which the death of the spouse occurred, such Retirement Benefit shall be converted to an annual Retirement Benefit computed pursuant to Section 6.2(a) in an amount equal to the amount of the annual Retirement Benefit the Participant would have received at the time of and based on his or her age at the date his or her Retirement Benefit commenced.

### Section 6.3 Alternative Forms of Benefit.

(a) Election of Forms of Benefit. Prior to the commencement of payment of a Retirement Benefit, a Participant may file an election designating a payment form other than the Normal Form of Retirement Benefit. If a Participant elects an annuity form of payment of pension benefits under a plan sponsored by the Company that is intended to be tax-qualified under section 401(a) of the Code, such form of payment shall, except as noted in the following sentence, be available for the payment of Retirement Benefits under this Supplemental Plan. A joint and survivor annuity or a contingent annuity shall not be available under this Supplemental Plan with respect to anyone other than the Participant's spouse as of the date that the Retirement Benefit commences.

(b) Additional Forms of Benefit. From time to time, the Committee may make other forms of payment of Retirement Benefits available in its sole discretion.

Section 6.4 Benefit Forms after April 2, 2001.

This Section applies to benefits paid under this Supplemental Plan after April 2, 2001. It applies to a Participant's entire Retirement Benefit, regardless of when it accrued.

(a) Retired Participants as of April 3, 2001. For any Participant (or Beneficiary of a Participant) who was a Retired Participant as of April 3, 2001, Retirement Benefits will continue to be paid in the benefit form described in (1) below, unless he or she elects otherwise under (2) below.

(1) Default Form. Unless otherwise elected under (2), a Participant described in (a) will continue to receive his or her Retirement Benefits in the form in which they were being paid as of April 2, 2001.

(2) Alternative Form. A Participant described in (a) may receive his or her Retirement Benefit in a lump sum if he or she timely elects to do so in a manner prescribed by the Committee and subject to the Committee's discretion to pay the benefit in another form.

(b) Active Participants as of April 3, 2001 Who Terminated Before October 1, 2003. For any Participant who was an Active Participant as of April 3, 2001 and terminates employment with the Northrop Grumman Corporation controlled group before October 1, 2003, Retirement Benefits accrued before April 3, 2001 are payable in the benefit form described in (1) below, unless he or she elects otherwise under (2) below. Retirement Benefits accrued after April 2, 2001 are payable only under (1) for Participants described in this subsection.

(1) Default Form. Unless otherwise elected under (2), a Participant described in (b) will receive his or her Retirement Benefit in a lump sum.

(2) Alternative Form. A Participant described in (b) may receive his or her Retirement Benefit in a benefit form described in Section 6.2 or 6.3 if he or she timely elects to do so in a manner prescribed by the Committee.

(c) Active Participants as of April 3, 2001 Who Terminate After September 30, 2003. For any Participant who was an Active Participant as of April 3, 2001 and who terminates employment with the Northrop Grumman Corporation controlled group after September 30, 2003, Retirement Benefits accrued after April 2, 2001 are payable under Section 6.2 unless the Participant timely elects, in accordance with the Committee's rules, to receive Retirement Benefits in the form described in Section 6.3 or one of the forms provided in the Litton Industries, Inc. Restoration Plan 2. Retirement Benefits accrued before April 3, 2001 are payable in the benefit form described in (b)(1), unless he or she elects otherwise under (b)(2).

Section 6.5 Amount of Death or Disability Benefit.

(a) Form of Death Benefit. The class of individuals who are eligible to be Beneficiaries of a Death Benefit is limited to the Participant's spouse, as of the date of the Participant's death, and the Participant's Dependent Children. If there is both a living spouse and Dependent Children, the Beneficiary shall be the spouse. A spouse Beneficiary shall receive a monthly benefit equal to 1/12th of the Death Benefit. If a spouse Beneficiary dies prior to the cessation of the Death Benefit payments, then the remaining Death Benefits shall be paid to any Dependent Children. The amount of any Death Benefit payable to each of the Dependent Children on a monthly basis is the amount equal to the Death Benefit that would be payable to a

spouse Beneficiary multiplied by a fraction, the numerator of which is one and the denominator of which is the number of Dependent Children. If there are no living Beneficiaries, no Death Benefit shall be paid.

(b) Form of Disability Benefit. A Disabled Participant shall receive a monthly benefit equal to 1/12th of the Disability Benefit.

Section 6.6 Commencement of Payments. Payment of benefits under this Supplemental Plan shall begin as soon as administratively feasible after the Participant (or Beneficiary, if applicable) has provided a claim for benefits in writing to the Committee, including any supporting documentation required by the Committee, and the Committee has determined that the Participant (or Beneficiary, if applicable) satisfies the requirements for payment.

Section 6.7 Form of Benefit Irrevocable. Once Retirement Benefits have commenced under this Supplemental Plan, the form of the Retirement Benefit payable is irrevocable.

Section 6.8 Commutation of Benefits. If the amount of the annual Retirement Benefit or Death Benefit payable under this Supplemental Plan to any Participant or his or her spouse or Beneficiary is less than five thousand dollars (\$5,000), payment of the Actuarial Equivalent of such payments may be made in a lump sum in full settlement of all sums payable under this Supplemental Plan.

## **ARTICLE VII — BENEFIT ELECTIONS AND BENEFICIARY DESIGNATIONS**

Section 7.1 General. All elections to receive benefits under this Supplemental Plan must be made in writing to the Committee in the form specified by the Committee and include the information or documentation that the Committee deems necessary. The Committee, in its discretion, may request additional information or reasonable documentation from time to time in order to determine whether a Participant receiving a Disability Benefit continues to be Disabled.

Section 7.2 Form of Benefit Elections. An election to receive payment of Retirement Benefits in a form other than the Normal Form must be submitted to the Committee in writing at any time prior to the commencement of payments. An election must be made in the form specified by the Committee and include the information or documentation that the Committee deems necessary, including written consent of the spouse in the case of a married Participant who elects a Retirement Benefit in a form other than the Normal Form. The filing of an election as to the form of Retirement Benefits shall revoke any pre-existing election, except that a revocation of an election for a married Participant shall be valid only if accompanied by the spouse's written consent to the subsequent election (other than a subsequent election to receive payments in the Normal Form).

Section 7.3 Beneficiaries. If the Committee makes available alternative benefit forms that provide for payments after a Participant's death, the Participant shall designate the



Beneficiary under such payment form in accordance with the procedures set forth by the Committee.

### **ARTICLE VIII – ADMINISTRATION**

The Committee shall administer this Supplemental Plan in accordance with its terms and purposes. The Committee shall have authority to interpret this Supplemental Plan, to determine benefits under this Supplemental Plan, to establish rules and procedures necessary to carry out the terms of this Supplemental Plan, and, in its discretion, to waive or modify any requirements or conditions on the receipt or calculation of benefits under this Supplemental Plan where the Committee determines that such a waiver is appropriate. The Committee may appoint one or more officers or employees of the Company to act on the Committee's behalf with respect to administrative matters related to this Supplemental Plan.

### **ARTICLE IX — SOURCE OF PAYMENTS**

**Section 9.1 General Assets of Company.** Benefits payable under this Supplemental Plan shall be paid directly to the Participant, or to the Participant's Beneficiary, as applicable, from the general assets of the Company, including the assets of the Trust to the extent that the Trust so provides. If any person acquires a right to receive payments from the Company under this Supplemental Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. In the event that the Company establishes an advance accrual reserve on its books against its future liability under this Supplemental Plan, such reserve shall not constitute an asset of this Supplemental Plan but shall at all times remain part of the general assets of the Company subject to the claims of the Company's creditors.

#### **Section 9.2 Payments to Trust.**

(a) **Mandatory Contribution.** Upon a Change of Control, the Company shall make Mandatory Contributions to the Trustee by wire transfer in immediately available funds of United States dollars. A Mandatory Contribution shall be made as soon as possible upon the Change of Control, but in no event more than ten days from the date of the Change of Control. In addition, a Mandatory Contribution shall be made every six months thereafter, provided that the calculation of the Mandatory Contribution on the sixth-month date yields a positive dollar amount. Mandatory Contributions shall continue to be required semi-annually until all Retirement Benefits, Disability Benefits, and Death Benefits have been paid to all Participants and Beneficiaries. The Company shall immediately notify the Committee in writing when payment of the Mandatory Contribution is made to the Trustee.

(b) **Continuing Obligation of Company.** Subsequent to the payment of a Mandatory Contribution, Participants and Beneficiaries shall be paid benefits under this Supplemental Plan from the Trust pursuant to the Trust Agreement, but in no event shall the making of a Mandatory Contribution relieve the Company of its obligation under this Supplemental Plan.

## ARTICLE X — CLAIMS AND ENFORCEMENT

### Section 10.1 Administrative Procedures.

(a) Notice of Denial. If the Committee determines that any person who has submitted a claim for payment of benefits under this Supplemental Plan is not eligible for payment of benefits or, if applicable, is not eligible for payment of benefits in the form requested, then the Committee shall, within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the claimant of the denial of the claim. Such notice of denial: (i) shall be in writing; (ii) shall be written in a manner calculated to be understood by the claimant; and (iii) shall contain (A) the specific reason or reasons for denial of the claim; (B) a specific reference to the pertinent Supplemental Plan provisions or administrative rules and regulations upon which the denial is based; (C) a description of any additional material or information necessary for the claimant to perfect the claim; and (D) an explanation of this Supplemental Plan's appeal procedures.

(b) Review Procedures. Within 90 days of the receipt by the claimant of the written notice of denial of the claim, or if the claim has not been granted or denied, within 120 days of the claimant's original claim, the claimant may file a written request with the Board that it conduct a full and fair review of the denial of the claimant's claim for benefits. The claimant's written request must include a statement of the grounds on which the claimant appeals the original claim denial. The Board shall deliver to the claimant a written decision on the claim promptly, but not later than 60 days after the receipt of the claimant's request for review, except that if there are special circumstances that require an extension of time for processing, the 60-day period shall be extended to 120 days, in which case written notice of the extension shall be furnished to the claimant prior to the end of the 60-day period.

### Section 10.2 Enforcement.

(a) Right to Enforce. The Company's obligations under this Supplemental Plan may be enforced by the filing of an action by any Participant or by any Participant's Beneficiary, spouse, Dependent Child, or personal representative.

(b) Attorneys Fees and Costs. If, on or after a Change of Control, any claimant is denied a claim for benefits under this Supplemental Plan and the claimant requests a review under the procedures described in Section 10.1(b), or files a claim in a court of law or any other tribunal to enforce any obligation of the Company under this Supplemental Agreement, which is based on a failure to administer the Plan in accordance with its terms, including the requirement that the Company make a Mandatory Contribution to the Trust, the Company shall pay such claimant all attorneys fees and costs incurred in connection with the claim, regardless of the outcome of the claim, provided that the claim is not frivolous. All attorneys' fees and costs under this Section 10.2(b) shall be paid by the Company as they are incurred by the claimant, but no later than 30 days from the date that the claimant submits a bill or other statement to the Company.

(c) Interest. If any claimant prevails in a review procedure described in Section 10.1(b), or if a claimant prevails in an action in a court of law or any other tribunal to enforce the payment of benefits under this Supplemental Plan, the Company shall pay interest to the claimant on any unpaid benefits accruing from the date that benefit payments should have commenced and continuing until the date that such owed and unpaid benefits are paid to the claimant in full. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to one percent plus the prime rate reported by the Wall Street Journal.

## ARTICLE XI — AMENDMENT AND TERMINATION

### Section 11.1 Amendment and Termination of this Supplemental Plan.

(a) General. Although the Company intends to maintain this Supplemental Plan, the Company reserves the right to amend or terminate this Supplemental Plan at any time for whatever purposes it may deem appropriate, except as specifically limited by this Article XI. The Company may amend, terminate, or suspend this Supplemental Plan only by the action of the Board, except that the Committee shall have the authority to make any amendments that do not decrease the level of benefits payable and that it deems necessary for the proper administration of this Supplemental Plan.

(b) Automatic Termination. This Supplemental Plan may be terminated or suspended only by action of the Board, except that this Supplemental Plan shall terminate automatically if there are no Active Participants remaining and all Retirement Benefits, Death Benefits, and Disability Benefits have been paid.

(c) Protection of Benefits. No amendment, termination, or suspension of this Supplemental Plan shall be effective to the extent that it reduces (i) the Retirement Benefit accrued or payable to any Retired Participant; (ii) Retirement Benefits that have commenced to be paid; or (iii) Death or Disability Benefits that have commenced to be paid.

(d) Protection of Active Participants. No amendment, termination, or suspension of this Supplemental Plan shall be effective to the extent that it reduces the Retirement Benefits that an Active Participant may accrue unless the amendment, termination or suspension also provides that the Active Participant is immediately vested in a Retirement Benefit calculated as if the Active Participant terminated employment immediately prior to the later of the date that the amendment, termination, or suspension is enacted or is effective.

(e) Change of Control. On or after a Change of Control, any amendment, termination, or suspension of the Plan shall be effective only upon the written consent of at least eighty-five percent of all Participants. The preceding sentence shall not apply to (i) a termination that occurs under Section 11.1(b); (ii) any amendment, termination, or suspension that affects future accruals of Retirement Benefits and that complies with the terms of Section 11.1(c) and (d).

Section 11.2 Contractual Obligation. The Company makes a contractual obligation that any amendment, suspension, or termination of this Supplemental Plan shall comply with the terms of Section 11.1.

**ARTICLE XII — MISCELLANEOUS**

Section 12.1 Employment Rights. Nothing contained in this Supplemental Plan shall be construed as a contract of employment between the Company and the Participant, or as a right of any employee to be continued in the employment of the Company, or as a limitation of the right of the Company to discharge any of its employees, with or without cause.

Section 12.2 Rights of the Committee. To the extent permitted by law, the Company shall indemnify the Committee (including any officers and employees of the Company appointed to act on behalf of the Committee) and hold such individuals harmless from and against any damages, losses, costs and expenses incurred (including without limitation expenses of investigation and the fees and expenses of counsel) in the course of administering this Supplemental Plan. The Company shall bear all expenses of the Committee incurred in the course of administering this Supplemental Plan.

Section 12.3 Benefit Statements. Upon the request of a Participant or a Beneficiary, as the case may be, the Company shall provide a statement of benefits under this Supplemental Plan to such Participant (or Beneficiary) that includes the information necessary to calculate the accrued Retirement Benefit, Disability Benefit, or Death Benefit, as applicable, with respect to such Participant or Beneficiary.

Section 12.4 Assignment. The benefits payable under this Supplemental Plan may not be assigned or alienated.

Section 12.5 Applicable Law. This Supplemental Plan shall be governed by the laws of the State of Delaware.

Section 12.6 Effective Date. This amended and restated Supplemental Plan shall take effect as of October 1, 2004.

Section 12.7 Entire Agreement. This writing is the final expression of this Supplemental Plan and a complete and exclusive statement of its terms, except that to the extent that this Supplemental Plan refers to the Trust, the terms of the Trust Agreement, as of the date immediately preceding a Change of Control, shall be deemed to be incorporated herein.

Section 12.8 Terms. Except as required otherwise by the context, capitalized terms that are used in this Supplemental Plan shall have the meaning assigned to them in Article II. Feminine or neuter pronouns shall be substituted for those of the masculine form, and the plural shall be substituted for the singular, in any place or places herein where the context may require such substitution or substitutions.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley

J. Michael Hateley

Corporate Vice President and Chief Human Resources and  
Administrative Officer

- 19 -

**APPENDIX TO THE LITTON INDUSTRIES, INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
(AMENDED AND RESTATED EFFECTIVE AS OF OCTOBER 1, 2004)**

**ASSUMPTIONS TO CALCULATE PRESENT VALUE OF REMAINING PROJECTED SERP BENEFITS**

**NOTE:** Capitalized terms are as defined in the Plan document or as defined below.

**SERP**

**FORMULAS:** Based on a Participant's appointment date, a gross annual SERP Retirement Benefit that is the **greater** of

- (a)  $[(1.6\% \times \text{projected Average Compensation up to Base Compensation Amount}) + (2.2\% \times \text{projected Average Compensation over Base Compensation Amount})] \times \text{Years of Service after later of age 40 or actual date of hire}$  **OR**
- (b)  $[(3.50\% \times \text{projected Average Compensation for the first ten (10) Years of Service}) + (1.25\% \times \text{projected Average Compensation for the next ten (10) Years of Service}) + (0.50\% \times \text{projected Average Compensation for the next five (5) Years of Service})]$

Less Offset Amounts, representing the sum of the projected primary insurance amount and the projected Company-provided pension  
Multiplied by the "Present Value Factor"

**OFFSET**

The projected Company-provided pension represents the following:

**AMOUNTS:**

- (a) The Projected LRP benefit (limited to the projected Section 415 limit):  
 $85\%^1 \times [\text{projected defined benefit after-tax deposits} + \text{FSSP Retirement Account deposits (reflecting Section 401(k) Limit)}]$   
  
Minus 75% of the projected primary insurance amount  
Minus  $[(\text{FSSP Retirement Account annuity equivalent factor for "Age at Retirement"} \times \text{projected FSSP Retirement Account Deposits with Earnings}) + (\text{LRP annuity equivalent factor for "Age at Retirement"} \times \text{projected defined benefit after-tax deposits with interest})]$
- (b) The projected Restoration Plan pension benefit:  
 $85\% \times \text{projected FSSP Retirement Account restricted amount (4\% of eligible pay over the Section 401(a)(17) pay limit)}$   
Minus  $(\text{FSSP Retirement Account annuity equivalent factor for "Age at Retirement"} \times \text{projected FSSP Retirement Account restricted amount with 8\% interest})$

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<sup>1</sup> Applies to all actual and hypothetical deposits made after 1982. Hypothetical deposits before 1983 are credited at 50%.

<u>Item</u>	<u>Assumption</u>	<u>Other Required Data</u>
Salary Scale for Average Compensation	6.00%	Past base salary and incentive cash awards for last ten (10) calendar years
LRP Interest Rate	5.00%	Defined benefit after-tax deposits: the greater of 5% interest or the rate per Section 411(c)(2) – 120% of average federal rate as of the beginning of the calendar year
FSSP investment rate of return	8.00%	FSSP Retirement Account deposits: Earnings at the rates actually earned under the plans
Age at retirement	Current Age	
Social Security Wage Base Increases	5.00%	Date of Birth, Current year's Social Security Wage Base
Social Security CPI	4.00%	Section 415 and 401(k) limited index & Base Compensation Amount index
Mortality table (Post-retirement Only)	83 GAM	
Present Value Factor & Interest Rate	See Note <sup>2</sup>	Deferred to "Age at Retirement" actuarial factor based on the present value interest rate and the form of payment specified

<sup>2</sup> For benefits payable as a lump sum, the interest rate shall be the average yield on non-callable, coupon 10-Year AAA California Municipal Bonds offered to retail investors by Bonds Online (<http://www.bonds-online.com/>) as of 1 p.m. EST immediately after the completion of the Change of Control. For benefits payable as an annuity, the interest rate shall be the discount rate used for funding purposes by the Litton Industries, Inc. Retirement Plan "B" as of the Change of Control Date.

**Appendix Regarding Acquisition Of Litton Industries, Inc.**

1. In General. This Appendix provides special rules concerning the acquisition by Northrop Grumman Corporation of Litton Industries, Inc. (the “Litton Acquisition”).
  - (a) Purpose. This Appendix prevents employees of the Northrop Grumman Group from receiving coverage or any credit for service or compensation under this Plan until the Plan and this Appendix are explicitly amended to provide otherwise.
  - (b) General Override. The provisions of this Appendix override any contrary provisions elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions.
  - (c) Definitions. For purposes of this Appendix:
    - (1) The term “Northrop Grumman Group” generally means Northrop Grumman Corporation and any entity affiliated with it under sections 414(b), (c), (m) or (o) of the Internal Revenue Code.
      - (A) With reference to periods before the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group.
      - (B) With reference to periods after the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group, but not including Litton Industries, Inc. (and any successor entity) and its subsidiaries.
    - (2) The term “Litton Acquisition Date” means the date on which Northrop Grumman Corporation purchased a majority interest in the shares of Litton Industries, Inc. pursuant to the exchange offer filed with the Securities and Exchange Commission on Form S-4.
2. Acquisition of Litton Industries, Inc. Effective as of the Litton Acquisition Date, Litton Industries, Inc. was acquired and became a subsidiary of Northrop Grumman Corporation.
3. Plan Sponsor. As of the Litton Acquisition Date, Northrop Grumman Corporation adopted and became the sponsor of the Plan.
4. Corporate Authority. During the period on and after the Litton Acquisition Date, all Plan references to the Board of Directors of Litton Industries, Inc. will instead be deemed to refer to the Board of Directors of Northrop Grumman Corporation.



5. Amendment and Termination Authority. As of the Litton Acquisition Date:
  - (a) Northrop Grumman Corporation through its Board of Directors will have sole authority to amend the Plan in its discretion. This authority may be delegated and re delegated.
  - (b) Northrop Grumman Corporation will have sole authority to terminate the Plan.
6. Coverage. No individuals who were employees of the Northrop Grumman Group immediately before the Litton Acquisition Date may participate in this Plan. No individuals who became employees of the Northrop Grumman Group after the Litton Acquisition Date may participate in this Plan.
7. Service With the Northrop Grumman Group. Service with the Northrop Grumman Group before or after the Litton Acquisition Date will not be counted as service for any purpose.
8. Compensation. No compensation for services performed for the Northrop Grumman Group will be treated as compensation under this Plan.
9. Nonduplication. Employees are not covered by this Plan for any Plan Year or portion of a Plan Year if they are actively participating under a similar plan of the Northrop Grumman Group.
  - (a) Solely for purposes of this section, employees are active participants in another plan if they are generally eligible to make or receive contributions or accrue benefits under the plan, or would be, but for limits in the plan.
  - (b) If an employee could be covered by two plans, both of which include this provision (or a similar provision), the plan administrators will resolve the discrepancy to allow eligibility for one plan or another but not both.
10. Termination of Employment. No termination of employment will be deemed to occur as a result of the Litton Acquisition, any corporate reorganization incident to the Litton Acquisition, any later liquidation of Litton Industries, Inc. (or any successor entity) or its subsidiaries or any transfer of assets or liabilities between members of the group consisting of Northrop Grumman Corporation and its subsidiaries.
  - (a) Similarly, there will be no “separation from service” or “severance from service” or event described by a similar term.
  - (b) The provisions of this Section are not intended to modify any service-counting provisions in the Plan, to extend service credits when they would not otherwise be given, nor to override Section 7 above.

## Appendix Regarding Investment Matters

1. In General. This Appendix gives responsibility for investment and trust matters (other than trustee duties) in connection with the Plan to an Investment Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, unless prohibited by change-in-control provisions or collective bargaining agreements.
2. Investment Fiduciary. The named fiduciary for investment and trust matters (other than trustee duties) is the Investment Committee.
3. The Investment Committee. The Investment Committee shall consist of not less than three persons appointed from time to time by the Board of Directors described in (a) (for purposes of this Appendix, the "Board") or its delegate.
  - (a) The "Board" for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then "Board" refers to the Board of Directors of that corporation.
  - (b) The members of the Investment Committee shall elect one of their members as Chairman and shall appoint a Secretary and such other officers as the Investment Committee may deem necessary.
  - (c) The Investment Committee may employ such advisors, including investment advisors, as it may require in carrying out the provisions hereof.
  - (d) Except as otherwise provided in these resolutions, each member of the Investment Committee shall continue in office until the expiration of three years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed annually.
  - (e) If at the end of his or her latest three year term, a member is not reappointed, he or she will continue to serve until the date his or her successor is appointed.
  - (f) A member may resign at any time by delivering a written resignation to the Corporate Secretary of Northrop Grumman Corporation and to the Secretary of the Investment Committee.
  - (g) A member may be removed by the Board at any time for any reason.
4. Alternate Members. The Board may from time to time appoint one or more persons as alternate members of the Investment Committee to serve in the absence of members of the Investment Committee, in the manner hereinafter stated, with the same effect as if they were members.
  - (a) The Chairman of the Investment Committee, in his or her discretion, shall designate which of the alternate members shall attend any particular meeting of the Investment Committee for the purpose of obtaining a quorum or full attendance as the Chairman may elect.

- (b) Each alternate member shall have all the rights, powers and obligations of a member in respect to the business of meetings which he or she so attends.
5. Actions by the Committee. A majority in number of the members of the Investment Committee at the time in office, represented at a meeting by members or alternate members or both, shall constitute a quorum for the transaction of business. Any determination or action of the Investment Committee, including allocations and delegations of responsibilities, may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members then in office.
6. Investment Responsibilities.
- (a) The Investment Committee, in its capacity as named fiduciary for investment matters, may, in its discretion, appoint one or more investment managers who shall have, until terminated by the Investment Committee, the power to manage, acquire and dispose of all or any part of the assets of the Plans allocated to an investment manager by the Investment Committee.
- (b) The Investment Committee shall have the power to hire and terminate trustees.
- (c) The Investment Committee shall periodically review and evaluate the investment performance of each trustee and investment manager and shall advise the Board of such review and evaluation.
- (d) In the event that investment powers are divided among two or more trustees or investment managers, the Investment Committee shall formulate investment policies for such trustees and investment managers to diversify the investments of the Plans so as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so.
- (e) The Investment Committee shall establish a funding policy and method to carry out the Plan's objectives. This procedure is to enable the Plan's fiduciaries to determine the Plan's short- and long-term financial needs and to communicate these requirements to the appropriate persons.
7. Liability and Indemnity.
- (a) No Investment Committee member who has a fiduciary responsibility, or to whom such responsibility is allocated, as provided in these resolutions, by

appointment or otherwise, shall be liable for any act or omission or investment policy of any other fiduciary except as provided in Section 405 of Employee Retirement Income Security Act of 1974.

- (b) To the extent permitted by law, Northrop Grumman Corporation shall indemnify and hold harmless members of the Board and the Investment Committee and employees of Northrop Grumman Corporation or its subsidiaries who act for the Investment Committee, as well as former members and former employees, with respect to their investment responsibilities.

## Appendix Regarding Plan Administration

1. In General. This Appendix gives responsibility for plan administration (other than investment and trust matters) to an Administrative Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions or collective bargaining agreements.
2. Plan Administrator. The general administration of the Plan is the responsibility of the Administrative Committee. The Committee is the plan administrator, and the Committee and each of its members are named fiduciaries. Committee members and all other Plan fiduciaries may serve in more than one fiduciary capacity with respect to the Plan.
3. The Administrative Committee. The Administrative Committee consists of at least three members appointed by the Board of Directors described in (a) (for purposes of this Appendix, the "Board") or its delegate. The members of the Committee shall serve without compensation for such service, unless otherwise determined by the Board.
  - (a) The "Board" for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then "Board" refers to the Board of Directors of that corporation.
  - (b) Except as otherwise provided in this Appendix, each member of the Committee shall continue in office until the expiration of 3 years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed.
  - (c) If at the end of his or her latest term as a member of the Committee, a member is not reappointed, he or she will continue to serve on the Committee until the date his or her successor is appointed.
  - (d) A member may be removed by the Board at any time and for any reason.
4. Resignation of Committee Members. A member of the Administrative Committee may resign at any time by delivering a written resignation to the Secretary of the corporation and to the Secretary of the Committee. The member's resignation will be effective as of the date of delivery or, if later, the date specified in the notice of resignation.
5. Conduct of Business. The Administrative Committee shall elect a Chairman from among its members and a Secretary who may or may not be a member. The Committee shall conduct its business according to the provisions of this Appendix and shall hold meetings from time to time in any convenient location.

6. Quorum. A majority of all of the members of the Administrative Committee constitutes a quorum and has power to act for the entire Committee.
7. Voting. All actions taken by the Administrative Committee shall be by majority vote of the members attending a meeting, whether physically present or through remote communications. In addition, actions may be taken by written consent of a majority of the Committee members without a meeting. The agreement or disagreement of any member may be by means of any form of written or oral communications.
8. Records and Reports of the Committee. The Administrative Committee shall keep such written records as it shall deem necessary or proper, which records shall be open to inspection by the Board.
9. Powers of the Committee. The Administrative Committee shall have all powers necessary or incident to its office as plan administrator. Such powers include, but are not limited to, full discretionary authority to:
  - (a) prescribe rules for the operation of the Plan;
  - (b) determine eligibility;
  - (c) comply with the requirements of reporting and disclosure under ERISA and any other applicable law, and to prepare and distribute other communications to participants (and, if applicable, beneficiaries) as a part of Plan operations;
  - (d) prescribe forms to facilitate the operation of the Plan;
  - (e) secure government approvals for the Plan (if applicable);
  - (f) construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions, and to determine the facts underlying any claim for benefits;
  - (g) determine the amount of benefits, and authorize payments from the trust;
  - (h) maintain records;
  - (i) litigate, settle claims, and respond to and comply with court proceedings and orders on the Plan's behalf;
  - (j) enter into contracts on the Plan's behalf;
  - (k) employ counsel and others to render advice about any responsibility that the Committee has under the Plan;
  - (l) exercise all other powers given to the plan administrator under other provisions of the Plan.

10. Allocation or Delegation of Duties and Responsibilities. The Administrative Committee and the Board may:
  - (a) Employ agents to carry out nonfiduciary responsibilities;
  - (b) Employ agents to carry out fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) under the rules of section 11 of this Appendix;
  - (c) Consult with counsel, who may be counsel to Northrop Grumman Corporation;
  - (d) Provide for the allocation of fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) among their members under the rules of section 11 of this Appendix; and
  - (e) In particular, designate one or more officers as having responsibility for designing and implementing administrative procedures for the Plan.
11. Procedure for the Allocation or Delegation of Fiduciary Duties. The rules of this section of the Appendix are as follows:
  - (a) Any allocation or delegation of fiduciary responsibilities must be approved by majority vote of the members of the Administrative Committee, in a resolution approved by the majority.
  - (b) The vote cast by each member of the Administrative Committee for or against the adoption of such resolution must be recorded and made a part of the written record of the proceedings.
  - (c) Any delegation or allocation of fiduciary responsibilities may be changed or ended only under the rules of (a) and (b) of this section of the Appendix.
12. Expenses of the Plan. All reasonable and proper expenses of administration of the Plan including counsel fees will be paid by the employers participating in the Plan.
13. Indemnification. Northrop Grumman Corporation agrees to indemnify and reimburse, to the fullest extent permitted by law, members and former members of the Board; members and former members of the Administrative Committee; employees and former employees of Northrop Grumman Corporation or its subsidiaries who act (or acted) for the Committee, Northrop Grumman Corporation or another employer participating in the Plan for any and all expenses, liabilities, or losses arising out of any act or omission relating to the rendition of services for or the management and administration of the Plan, except in instances of gross misconduct.

14. Extensions of Time Periods. For good cause shown, the Administrative Committee may extend any period set forth in the Plan for taking any action required of any participant or beneficiary to the extent permitted by law.
15. Claims Procedures. No benefits will be paid under the Plan unless a proper claim is submitted to the Administrative Committee. The Committee will meet periodically to review applications for benefits submitted to it. The procedures for claim denials and for seeking review of a denial or partial denial of a claim for benefits are described in this section of the Appendix.
  - (a) Notification to claimant of decision. Notice of decision on any claim for benefits shall be furnished to the claimant within 90 days after receipt of the claim by the Committee. A claimant may deem his or her claim to be denied for purposes of further review described below in the event a decision is not furnished to the claimant within such 90-day period.
  - (b) Content of notice. Every claimant who is denied a claim for benefits in whole or in part shall receive a written notice setting forth in a manner calculated to be understood by the claimant:
    - (1) The specific reason or reasons for the denial;
    - (2) Specific reference to pertinent Plan provisions on which the denial is based;
    - (3) A description of any additional material or information necessary for the claimant to perfect the claim, and an explanation of why such material or information is necessary; and
    - (4) Appropriate information as to the steps to be taken if the participant or beneficiary wishes to submit his or her claim for review including the time limits set forth in subsections (e) and (f).
  - (c) Review procedure. A claimant whose claim has been denied in whole or in part, or his or her duly authorized representative, may:
    - (1) Request a review of the denied claim upon written application to the Committee setting forth:
      - (A) All of the grounds upon which his or her request for review is based and any facts in support of his or her request, and
      - (B) Any issues or comments which the applicant deems pertinent to his or her application; and
    - (2) Review pertinent documents.



- (d) Hearings. In appropriate cases, the Committee may provide for a hearing to be conducted with respect to the review of any claim. In such event, the Committee shall give notice of such hearing to the claimant affected, as well as the procedures for the hearing, such as the length of the hearing, whether witnesses may be presented, whether cross-examination will be allowed, and any other matters which the Committee considers pertinent.
  - (e) Time For Seeking Review. A claimant may seek review of a denied claim within 65 days after receipt by the claimant of written notification of the denial or partial denial of the claim. Under extraordinary circumstances, the Plan may extend this time period.
  - (f) Decision on review.
    - (1) A decision by the Committee shall be made promptly, and shall not ordinarily be made later than 60 days after the Committee's receipt of a request for review.
    - (2) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or other documents governing the Plan on which the decision is based.
    - (3) The decision on review shall be furnished to the claimant within the appropriate time described in paragraph (1) of this subsection. If the decision on review is not furnished within such time, the claim shall be deemed denied on review.
    - (4) The decision of the Committee on any application for benefits shall be final and conclusive upon all persons if supported by substantial evidence in the record.
  - (g) Disclosure of Claim Procedures. All Plan participants shall be given a description of the claims procedures, which shall include a description of the time limits set forth in subsections (a), (e) and (f), within a reasonable time after commencing participation in the Plan.
  - (h) Delegation. The Committee may delegate its responsibilities under this subsection to a subcommittee, individual, or other person.
16. Qualified Domestic Relations Orders. The Administrative Committee shall establish procedures for handling domestic relations orders.

17. Amendments. The Administrative Committee may amend the Plan through written resolution to make the changes identified in subsection (a). Any amendments must be made in accordance with the rules of subsections (b), (c) and (d).

(a) The Committee may amend the Plan:

- (1) to the extent necessary to keep the Plan in compliance with law;
- (2) to make clarifying changes;
- (3) to correct drafting errors;
- (4) to otherwise conform the Plan documents to the company's intent;
- (5) to change the participation and eligibility provisions;
- (6) to change plan definitions, formulas or employee transfer rules;
- (7) with respect to administrative, procedural and technical matters including benefit calculation procedures, distribution elections and timing, other elections, waivers, notices, and other ministerial matters; and
- (8) with respect to management of funds.

(b) Before adopting any Plan amendment, the Committee must obtain:

- (1) a cost analysis of the proposed amendment;
- (2) a legal opinion that the amendment does not violate ERISA or other applicable legal requirements;
- (3) a tax opinion that the amendment will not result in the Plan's disqualification;
- (4) approval of the amendment from the Corporate Vice President and Chief Financial Officer of Northrop Grumman Corporation; and
- (5) approval of the amendment from the Corporate Vice President and Chief Human Resources and Administrative Officer of Northrop Grumman Corporation.

(c) The Committee must refer to the Board for approval any amendments that:

- (1) will result in an increase in costs on an annual basis in excess of \$5,000,000; or

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- (2) will result in a decrease in costs on an annual basis in excess of \$5,000,000.
  - (d) The Committee's amendment authority may not be delegated.
  - (e) Nothing in this section 17 of the Appendix is intended to modify the amendment authority of any company, board or directors, officer or other committee.

NORTHROP GRUMMAN  
ELECTRONIC SYSTEMS EXECUTIVE PENSION PLAN  
(Amended and Restated Effective as of October 1, 2004)

TABLE OF CONTENTS

ARTICLE 1—Introduction	2
Section 1.01. Introduction	2
Section 1.02. Effective Date	2
Section 1.03. Sponsor	2
Section 1.04. Predecessor Plan	2
Section 1.05. 2001 Reorganization	2
ARTICLE 2—Definitions	3
Section 2.01. Affiliated Companies	3
Section 2.02. Annual Incentive Programs	3
Section 2.03. Average Annual Compensation	3
Section 2.04. Board	3
Section 2.05. Code	3
Section 2.06. Committee	3
Section 2.07. Company	3
Section 2.08. Defined Contribution Plan	3
Section 2.09. Designated Entity	3
Section 2.10. ERISA	3
Section 2.11. ES Pension Plan	3
Section 2.12. Executive	4
Section 2.13. Executive Benefit Service	4
Section 2.14. Executive Pension Base	4
Section 2.15. Executive Pension Supplement	4
Section 2.16. Maximum Contribution	4
Section 2.17. Participating Company	5
Section 2.18. Plan	5
Section 2.19. Qualified Plan Benefit	5
Section 2.20. Retirement Eligible	6
Section 2.21. Westinghouse	6
Section 2.22. Westinghouse Acquisition	6
Section 2.23. Westinghouse Plan	6
ARTICLE 3—Qualification for Benefits; Mandatory Retirement	7
Section 3.01. Qualification for Benefits	7
Section 3.02. Mandatory Retirement	7
Section 3.03. Certain Transfers	7
ARTICLE 4—Calculation of Executive Pension Supplement	9
Section 4.01. In General	9
Section 4.02. Amount	9
ARTICLE 5—Death in Active Service	10
Section 5.01. Eligibility For an Immediate Benefit	10
Section 5.02. Calculation of Immediate Benefit	10

Section 5.03. Eligibility For a Deferred Benefit	10
Section 5.04. Calculation of Deferred Benefit	10
ARTICLE 6—Executive Pension Base	11
Section 6.01. In General	11
Section 6.02. Executive Pension Base	11
Section 6.03. Average Annual Compensation	11
Section 6.04. Annual Incentive Programs	12
Section 6.05. Executive Benefit Service	12
ARTICLE 7—Payment of Benefits	13
Section 7.01. Limitation on Benefits	13
Section 7.02. Normal Form and Commencement of Benefits	13
Section 7.03. Guaranteed Benefit	13
Section 7.04. Guaranteed Surviving Spouse Benefit	13
Section 7.05. Lump Sum Payments	13
Section 7.06. Rehires	14
ARTICLE 8—Conditions to Receipt of Executive Pension Supplement	15
Section 8.01. Non-Competition Condition	15
Section 8.02. Breach of Condition	15
Section 8.03. Waiver After 65	15
ARTICLE 9—Administration	16
Section 9.01. Committee	16
Section 9.02. Claims Procedures	16
Section 9.03. Trust	16
ARTICLE 10—Modification or Termination	17
Section 10.01. Amendment, Suspension and Termination	17
Section 10.02. Effective Date of Changes, Terminations and Suspensions	17
Section 10.03. Limitations on Changes and Terminations	17
ARTICLE 11—Miscellaneous	18
Section 11.01. Benefits Not Assignable	18
Section 11.02. Facility of Payment	18
Section 11.03. Committee Rules	18
Section 11.04. Limitation on Rights	18
Section 11.05. Benefits Unsecured	18
Section 11.06. Governing Law	18
Section 11.07. Severability	18
Section 11.08. Expanded Benefits	19
Section 11.09. Plan Costs	19
Section 11.10. Termination of Participation	19
ARTICLE 12—Change in Control	20
Section 12.01. Definition	20

Section 12.02. Vesting and Funding Rules	21
Section 12.03. Special Retirement Provisions	21
Section 12.04. Calculation of Present Value	21
Section 12.05. Calculation of Offset	22
Section 12.06. Limitation on Amendment, Suspension and Termination	22
APPENDIX A—Executive Buyback	23
Section A.01. Introduction	23
Section A.02. Buy Back Offer	23
Section A.03. One-Time Opportunity	23
Section A.04. Payment	23
Section A.05. Refund of Buy Back Payment	23
Section A.06. Effective Date	24
APPENDIX B—Rehired Executives	25
Section B.01. Retired Executives Rehired as Executives	25
Section B.02. Former Executives with Vested Pensions Rehired as Executives	26
Section B.03. Retired Executives Rehired in Non-Executive Positions	26
Section B.04. Events That Span Westinghouse Acquisition	27
Section B.05. Breaks Spanning March 1, 1996	27
APPENDIX C—Coordination With Westinghouse Plan	28
Section C.01. In General	28
Section C.02. Pre-Acquisition Benefits	28
Section C.03. Coordination of Pre and Post-Acquisition Benefits	28
Section C.04. No Duplication of Benefits	28

NORTHROP GRUMMAN

ELECTRONIC SYSTEMS EXECUTIVE PENSION PLAN

(Amended and Restated Effective as of October 1, 2004)

The Northrop Grumman Electronic Systems Executive Pension Plan (the "Plan") is hereby amended and restated effective as of October 1, 2004. This restatement is intended solely to incorporate into the Plan document previously adopted amendments to the Plan and is not intended to make substantive changes to the Plan.

The Plan became effective on March 1, 1996. The Plan was amended in December 1996 to expand the definition of Average Annual Compensation to include periods of service outside of the Electronic Sensors & Systems Division for participants who transfer out of the Division. In 1998, the Plan was amended to make changes necessary to reflect to the conversion to pay based on salary bands at the Electronic Sensors & Systems Division and to permit certain service at Affiliated Companies to count for purposes of eligibility under this Plan. A subsequent 1998 amendment modified, effective March 1, 1996, the funding requirements and amendment procedures applicable to the Plan in the event of a change in control. Rules regarding the effect of certain transfers of employment were adopted November 18, 1998, to be effective March 1, 1996.

In December 1999, the Plan was amended to reflect the August 24, 1998 change in the name of the ESS business from Division to Sector, to clarify that, effective August 1, 1996, lump-sum payments may be made to executives who elect lump sum payments of all nonqualified benefits under the CIC plans, and to clarify the mechanisms for certain buy-backs and contributions by executives of designated entities. In March 2001, the Plan was amended to account for the acquisition of Litton Industries, Inc. and the associated corporate reorganization.

The Plan was further amended to include the Northrop Grumman Incentive Compensation Plan and the Incentive Management Achievement Plan for purposes of determining the portion of a participant's benefit attributable to amounts received under Annual Incentive Programs sponsored by Northrop Grumman Corporation, effective January 1, 2001. Effective July 1, 2003, the Plan was amended to expand the definition of Qualified Plan Benefit to include benefit amounts earned under a restoration plan for the Qualified Plan. Finally, the Plan was amended effective July 1, 2003 to freeze participation in the Plan, limiting participation to employees who are currently participating and permit those participants whose employment is transferred to eligible positions within the Northrop Grumman Corporation controlled group to continue participating in the Plan.



ARTICLE 1

Introduction

Section 1.01. Introduction. The Northrop Grumman Electronic Systems Executive Pension Plan is a supplemental pension plan that provides nonqualified deferred compensation for a select group of management or highly compensated employees.

Section 1.02. Effective Date. The Plan is effective October 1, 2004.

Section 1.03. Sponsor. The Plan sponsor is Northrop Grumman Corporation.

Section 1.04. Predecessor Plan. The Plan was established as a successor to the Westinghouse Executive Pension Plan, maintained by Westinghouse Electric Corporation ("Westinghouse") for the benefit of certain executive employees of the Westinghouse Electronic Systems Group as of February 29, 1996 who became employees of the Northrop Grumman Electronic Sensors & Systems Division as of March 1, 1996 as a result of the Westinghouse Acquisition, and certain other executive employees who may become employed by the Northrop Grumman Electronic Sensors & Systems Division on or after March 1, 1996. The Northrop Grumman Electronic Sensors & Systems Division became the Northrop Grumman Electronic Sensors & Systems Sector effective August 24, 1998.

Section 1.05. 2001 Reorganization. Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").

(a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

(b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

(c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.

(d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.

(e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

ARTICLE 2

Definitions

Capitalized terms which are defined in the ES Pension Plan will have the same meanings in this Plan unless otherwise expressly stated. In addition, the following terms when used and capitalized will have the following meanings:

Section 2.01. Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

Section 2.02. Annual Incentive Programs. See Article 6.

Section 2.03. Average Annual Compensation. See Article 6.

Section 2.04. Board. Board means the Board of Directors of Northrop Grumman Corporation, or its delegate.

Section 2.05. Code. The Internal Revenue Code of 1986, as amended, and as it may be amended.

Section 2.06. Committee. A committee of not less than three members appointed by the Board with responsibility for the general administration of the Plan. The Committee is the “plan administrator” under ERISA.

Section 2.07. Company. Northrop Grumman Corporation.

Section 2.08. Defined Contribution Plan. A defined contribution plan within the meaning of ERISA § 3(34), but not including:

(a) the Northrop Grumman Electronic Systems Savings Program or any similar program of a Participating Company or a Designated Entity or

(b) any amount received pursuant to a cash or deferred arrangement (as that term is defined in the Code) maintained by a Participating Company or a Designated Entity.

Section 2.09. Designated Entity. Designated Entity means an Affiliated Company or other entity that has been and is still designated by the Committee as participating in the Plan.

Section 2.10. ERISA. The Employee Retirement Income Security Act of 1974, as amended, and as it may be amended.

Section 2.11. ES Pension Plan. The Northrop Grumman Electronic Systems Pension Plan, formerly known as the ESSD Pension Plan.

Section 2.12. Executive. Executive means an individual who satisfies (a) and (b) and is not excluded by (c) or (d):

(a) An Employee who is employed by ES (or by a Participating Company, Designated Entity, or other Affiliated Company) in a position that is determined by the Company's Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be eligible as an Executive position under this Plan based on the duties and responsibilities of the position.

(b) The Employee has been notified by the Committee in writing that he or she is eligible for benefits under the Plan.

(c) No Employee may receive benefits under this Plan if he or she is currently accruing supplemental benefits under any other nonqualified deferred compensation plan, contract, or arrangement maintained by the Affiliated Companies or to which the Affiliated Companies contribute with the exception of the Officers Supplemental Executive Retirement Program under the Northrop Grumman Supplemental Plan 2.

(d) Notwithstanding any provision of the Plan to the contrary, effective as of July 1, 2003, no Employee will first become eligible to participate in the Plan or otherwise receive credit for service or compensation for purposes of calculating a benefit under the Plan unless the Employee was classified as an Executive eligible to participate in the Plan before that date. Executives that terminate employment and are later rehired into positions that are determined to be eligible as Executive positions under the Plan will be eligible to resume participation in the Plan and will be subject to Appendix B.

Section 2.13. Executive Benefit Service. See Article 6.

Section 2.14. Executive Pension Base. See Article 6.

Section 2.15. Executive Pension Supplement. The pension calculated pursuant to Articles 4 and 5 of this Plan. There will be no Executive Pension Supplement payable if the Executive's Qualified Plan Benefit equals or exceeds his or her Executive Pension Base.

Section 2.16. Maximum Contribution. An Employee will be deemed to have made the Maximum Contribution if he or she has made the contributions under (a) and (b), as interpreted under (c):

(a) During such time as the Employee was eligible to participate in the ES Pension Plan and the Westinghouse Pension Plan, he or she contributed the maximum amount the Employee was permitted to contribute under those plans, and

(b) During such time as the Employee was employed by a Designated Entity (which includes for this purpose a "Designated Entity" under the Westinghouse Plan during periods before the Westinghouse Acquisition),

(1) The Employee contributed the maximum amount he or she was permitted to contribute, if any, to that Designated Entity's defined benefit pension or Defined Contribution Plan, if any, and

(2) The Employee paid to the Company (or to Westinghouse, before the Westinghouse Acquisition) an amount of each of his or her annual incentive compensation awards based on the maximum ES Pension Plan contribution formula (or Westinghouse Pension Plan contribution formula, as appropriate) applied to 50% of his or her awards. This payment is pre-tax and is made by a deferral election entered into prior to the year in which the annual incentive compensation award is determined and paid.

(c) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to have made the Maximum Contribution not only under this Plan but also under the Westinghouse Plan.

Section 2.17. Participating Company. Any of the "Participating Companies" under the ES Pension Plan.

Section 2.18. Plan. The Northrop Grumman Electronic Systems Executive Pension Plan.

Section 2.19. Qualified Plan Benefit.

(a) The Qualified Plan Benefit is equal to the sum of:

- (1) the annual amount of pension the Executive has accrued under the ES Pension Plan and any applicable defined benefit pension plan of a Designated Entity based on Benefit Service accumulated up to the earlier of the Executive's actual retirement date or death;
- (2) the amount the Executive is entitled to receive on a life annuity basis for retirement under any applicable Defined Contribution Plan of a Designated Entity;
- (3) in any case where service included in the Executive's Vesting Service also entitles that Executive to benefits under one or more retirement plans (whether a defined benefit or Defined Contribution Plan or both) of another company, the amount the Executive is entitled to receive on a life annuity basis for retirement from those plans; and
- (4) the amount of any "Qualified Plan Benefits" taken into account under the Westinghouse Plan (or which would have been taken into account, but for the Westinghouse Acquisition) with respect to plans that were not acquired by the Affiliated Companies as part of the Westinghouse Acquisition;

provided, the method of benefit measurement, in the case of (2), (3) and (4) above, will be on the basis of procedures determined by the Committee on a plan-by-plan basis.

(b) The Qualified Plan Benefit does not include any early pension retirement supplement.

(c) The term Qualified Plan Benefit will also include amounts accrued under an excess benefit plan or other similar arrangement in which the Executive is a participant.

Section 2.20. Retirement Eligible. An Executive is Retirement Eligible if he or she is accruing Vesting Service and:

- (a) has attained age 65 and completed five or more years of Vesting Service;
- (b) has attained age 60 and completed 10 or more years of Vesting Service;
- (c) has attained age 58 and completed 30 or more years of Vesting Service; or
- (d) has satisfied the requirements for an immediate pension under the Special Retirement Benefit provisions of the ES Pension Plan.

Section 2.21. Westinghouse. Westinghouse Electric Corporation.

Section 2.22. Westinghouse Acquisition. The acquisition by Northrop Grumman Corporation of the Electronic Systems Group of Westinghouse effective March 1, 1996.

Section 2.23. Westinghouse Plan. The Westinghouse Executive Pension Plan, as it existed from time to time.

ARTICLE 3

Qualification for Benefits; Mandatory Retirement

Section 3.01. Qualification for Benefits. Subject to Article 8 and other applicable provisions of the Plan, if any, each Executive will be entitled to the benefits of this Plan on separation from service from a Participating Company, a Designated Entity, or any other Affiliated Company, provided that such Executive meets the following four conditions:

(a) He or she has been employed in a position that meets the definition of Executive for five or more continuous years immediately preceding the earlier of the Executive's actual retirement date or the Executive's Normal Retirement Date. For purposes of this five-year requirement (but not for purposes of determining Executive Benefit Service under Section 6.05), the General Manager of ES and the Vice President of Human Resources for ES may determine that one or more years of an Employee's service with an Affiliated Company prior to the Employee's transfer to ES shall be counted as having been in an Executive position.

(b) He or she has made the Maximum Contribution during each year of Vesting Service from the date he or she first became an Executive until the earliest of his or her date of death, actual retirement date or Normal Retirement Date;

(c) He or she is a participant in the ES Pension Plan or in the defined benefit plan or Defined Contribution Plan of a Designated Entity, if any;

(d) He or she is Retirement Eligible on the date of voluntary or involuntary separation from service from a Participating Company or a Designated Entity or, in the case of a Surviving Spouse benefit, satisfies the requirements for benefits under Article 5 of the Plan.

Section 3.02. Mandatory Retirement. Pursuant to this Plan, the Company will be entitled, at its option, to retire any Executive who has attained age 65 and who, for the two-year period immediately before his or her retirement, has participated in this Plan, if such Executive is entitled to an immediate nonforfeitable annual retirement benefit from a pension, profit-sharing, savings or deferred compensation plan, or any combination of such plans, of a Participating Company or any Affiliated Company, which equals, in the aggregate, at least \$44,000. The calculation of the \$44,000 (or greater) amount will be performed in a manner consistent with 29 U.S.C. § 631(c)(2).

Section 3.03. Certain Transfers. Except as otherwise provided in (e) below, if an Executive transfers to a position with an Affiliated Company that is not covered by a Participating Company or Designated Entity:

(a) He or she will immediately cease to accrue Executive Benefit Service.

(b) He or she will continue to earn Vesting Service (for purposes of the Plan other than Executive Benefit Service) for periods of employment with the Affiliated Company.

(c) His or her Average Annual Compensation will include earnings as an employee from the Affiliated Company for periods after the transfer until his or her termination of employment with all Affiliated Companies.

(d) He or she may receive benefits under the Plan if he or she subsequently retires from the Company and satisfies the Plan's eligibility requirements.

(e) Effective as of July 1, 2003, if an Executive transfers to a position with an Affiliated Company that has been determined by the Company's Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be an eligible position under the Plan, (a)-(d) above will not apply and the Executive will continue to be classified as an active participant for all purposes under the Plan until the Executive's separation from service from all Affiliated Companies.

ARTICLE 4

Calculation of Executive Pension Supplement

Section 4.01. In General. The Executive Pension Supplement for an Executive who meets the qualifications of Article 3 of the Plan retiring on an Early, Normal or Special Retirement Date will be calculated as described in Section 4.02(a) or (b).

Section 4.02. Amount.

(a) If the Executive

(1) has attained age 60 and completed 10 or more years of Vesting Service,

(2) has attained age 65, or

(3) has satisfied the eligibility requirements for an immediate pension under the "Special Retirement Benefit" provisions of the ES Pension Plan, the Executive Pension Supplement is determined by subtracting the Executive's Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (after any reduction for early retirement, if applicable) from his or her Executive Pension Base.

(b) If the Executive has not met the requirements of paragraph (a) above but has attained age 58 and completed 30 or more years of Vesting Service, the Executive Pension Supplement is determined by subtracting the Executive's Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (before any reduction for retirement prior to age 60) from his or her Executive Pension Base.



ARTICLE 5

Death in Active Service

Section 5.01. Eligibility For an Immediate Benefit. If an Executive dies in active service and, on his or her date of death, satisfies the requirements of the “Special Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.02. Calculation of Immediate Benefit. The amount of the immediate Surviving Spouse benefit under Section 5.01 will be the Executive Pension Supplement reduced in the same manner as though the benefit were a “Special Surviving Spouse Benefit” under the ES Pension Plan. For purposes of this Section, the Executive Pension Supplement will be calculated as follows:

(a) If the Executive had attained age 60 or if the Executive had completed 30 years of Vesting Service, the Executive Pension Supplement would be calculated as described in Section 4.02(a);

(b) Otherwise, the Executive Pension Supplement would be 80% of the difference between the Executive Pension Base and the unreduced Qualified Plan Benefit.

Section 5.03. Eligibility For a Deferred Benefit. If an Executive dies in active service who does not satisfy the requirements of Section 5.01 but who satisfies the requirements of the “Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.04. Calculation of Deferred Benefit. The amount of the deferred Surviving Spouse benefit under Section 5.03 will be the Executive Pension Supplement reduced in the same manner as though the benefit were payable under the ES Pension Plan. For purposes of this paragraph, the Executive Pension Supplement will be calculated by subtracting the Executive’s Qualified Plan Benefit (before any reductions) from his or her Executive Pension Base.

ARTICLE 6

Executive Pension Base

Section 6.01. In General. This Article sets forth the rules for determining a Participant's Executive Pension Base.

Section 6.02. Executive Pension Base. The Executive Pension Base = (a) x (b) x (c) as follows:

- (a) 1.47%;
- (b) Average Annual Compensation;
- (c) the number of years of Executive Benefit Service accrued to the earliest of:
  - (1) the Executive's actual retirement date,
  - (2) the date of the Executive's death, or
  - (3) the Executive's Normal Retirement Date.

Section 6.03. Average Annual Compensation. Average Annual Compensation = (a) + (b) as follows:

- (a) 12 times the average of the five highest of the Executive's December 1 monthly base salaries during the 10-year period immediately preceding the earliest of:
  - (1) the Executive's date of death,
  - (2) the Executive's actual retirement date, or
  - (3) the Executive's Normal Retirement Date;
- (b) the average of the Executive's five highest annual incentive compensation awards paid under the Annual Incentive Programs or equivalent annual program or programs during the 10-year period ending with the earliest of:
  - (1) the year of the Executive's death,
  - (2) the year of the Executive's actual retirement date, or
  - (3) the year of the Executive's Normal Retirement Date.
- (c) No earnings before March 1, 1996 are taken into account under this Article.
- (d) Average Annual Compensation normally includes only pay earned while an Executive. But see Section 3.03.

Section 6.04. Annual Incentive Programs. The Annual Incentive Programs are the Timely Awards Program, Management Achievement Plan, the Incentive Compensation Plan, the Incentive Management Achievement Plan and the Performance Achievement Plan of the Company.

Section 6.05. Executive Benefit Service. An Executive's Executive Benefit Service is determined under (a) or (b) as appropriate:

(a) Executive Benefit Service is an Executive's total years of Vesting Service under the ES Pension Plan if:

(1) the Executive was making the Maximum Contribution during each of those years; or

(2) the use of the Executive Buy Back process has been authorized by the Committee and the Executive:

(A) was making the Maximum Contribution during each of those years after the date he or she first became an Executive and

(B) has complied with the provisions of the Executive Buy Back process (as set forth in Appendix A) as to those years prior to his or her first becoming an Executive.

(b) Otherwise, Executive Benefit Service is the Executive's period of Vesting Service during which he or she made the Maximum Contribution.

(c) No service before March 1, 1996 is taken into account under this Article.

ARTICLE 7

Payment of Benefits

Section 7.01. Limitation on Benefits. No benefits will be payable under this Plan to any Executive whose employment terminates for any reason other than death prior to becoming Retirement Eligible.

Section 7.02. Normal Form and Commencement of Benefits. The Executive Pension Supplement will be paid for life in monthly installments, each equal to 1/12th of the annual amount determined in Article 4 or 5, whichever is applicable.

(a) The Committee will determine the form and commencement of benefit payments in its sole discretion.

(b) The Committee will choose among the various forms of payment, other than the lump sum, then available under the ES Pension Plan, subject to the same reductions or other provisions that apply to the elected form of payment under the ES Pension Plan.

(c) No payments may commence under this Plan until payments to the Executive or Surviving Spouse have commenced under the ES Pension Plan or other tax-qualified defined benefit plan or Defined Contribution Plan maintained by a Participating Company or Designated Entity.

Section 7.03. Guaranteed Benefit. Regardless of the form of payment elected by the Committee, after the Executive retires and begins receiving an Executive Pension Supplement, a minimum of 60 times the monthly payment he or she would have received on a life annuity basis is guaranteed.

Section 7.04. Guaranteed Surviving Spouse Benefit. Once a Surviving Spouse Benefit determined under Sections 5.01 and 5.02 has commenced, a minimum of 60 times the monthly benefit payable to the Surviving Spouse is guaranteed.

Section 7.05. Lump Sum Payments. An Executive who elects lump sum payments of all his or her nonqualified benefits under the Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan (collectively, the "CIC Plans") is entitled to have his or her Executive Pension Supplement paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, Executive Pension Supplement payments are governed by the general provisions of this Article, which do not provide for lump sum payments.

Northrop Grumman Corporation may, in its sole discretion, amend or eliminate any provision of the Plan with respect to lump sum distributions at any time. This applies whether or not a Participant has already made a lump sum election.

Section 7.06. Rehires. In the event that an Executive retires or otherwise ceases to be an Employee of a Participating Company or a Designated Entity and is later rehired by one of those entities, the provisions of Appendix B will apply.

ARTICLE 8

Conditions to Receipt of Executive Pension Supplement

Section 8.01. Non-Competition Condition. Payments of benefits under this Plan to Executives are subject to the condition that the recipient will not compete with the Company.

(a) Competition for this purpose means engaging directly or indirectly in any business which is at the time competitive with any business, part of a business, or activity then conducted by the Company, any of its subsidiaries or any other corporation, partnership, joint venture or other entity of which the Company directly or indirectly holds a 10% or greater interest (together, the "Affiliated Group") in the area in which such business, part of a business, or activity is then being conducted by the Affiliated Group.

(b) The condition of this Section may be waived with respect to a recipient but only in writing and only by the Compensation Committee of the Board.

Section 8.02. Breach of Condition. Breach of the condition contained in Section 8.01 will be deemed to occur immediately upon an Executive's engaging in competitive activity.

(a) Payments suspended for breach of the condition will not be resumed whether or not the Executive terminates the competitive activity.

(b) A recipient will be deemed to be engaged in such a business indirectly if he or she is an employee, officer, director, trustee, agent or partner of, or a consultant or advisor to or for, a person, firm, corporation, association, trust or other entity which is engaged in such a business or if he or she owns, directly or indirectly, in excess of 5% of any such firm, corporation, association, trust or other entity.

Section 8.03. Waiver After 65. The ongoing condition of this Article will not apply to an Executive age 65 or older.

ARTICLE 9

Administration

Section 9.01. Committee. This Plan will be administered by the Committee. The Committee will have the right to make reasonable rules from time to time regarding the Plan. All such rules will be consistent with the policy provided by this Plan document. The Committee will have full discretion to interpret the Plan, and to resolve ambiguities and inconsistencies. The Committee's interpretations will in all cases be final and not be subject to appeal.

Section 9.02. Claims Procedures. In accordance with the provisions of ERISA § 503, the Committee will provide a procedure for handling claims of participants or their beneficiaries under this Plan.

Section 9.03. Trust. The Board may authorize the establishment of one or more trusts and the appointment of a trustee or trustees ("Trustee") to hold any and all assets of the Plan in trust. The Board may delegate this power to the Committee.

ARTICLE 10

Modification or Termination

Section 10.01. Amendment, Suspension and Termination. The Company reserves the right, at any time and from time to time, without notice, to suspend or terminate the Plan or to amend, in whole or in part, any and all provisions of the Plan, acting as follows:

- (a) The Board may suspend the Plan, terminate the Plan, or adopt Plan amendments that amend any and all provisions of the Plan in whole or in part;
- (b) The Compensation Committee of the Board may adopt Plan amendments that amend any and all provisions of the Plan in whole or in part;
- (c) The Committee may adopt Plan amendments that amend any and all provisions of the Plan in whole or in part, provided that no amendments may be adopted by the Committee that would materially change any Plan benefits or materially increase the costs of the Plan.

Section 10.02. Effective Date of Changes, Terminations and Suspensions. Any such change, termination or suspension will be effective at such time as is specified by the Board, the Compensation Committee, or the Committee, as applicable, or, if no such time is so specified, upon adoption.

Section 10.03. Limitations on Changes and Terminations. Notwithstanding the above, no such change or termination may adversely affect:

- (a) The benefits of any Executive who retires prior to such change or termination; or
- (b) The right of any then current Executive to receive upon retirement (or to have a Surviving Spouse or beneficiary receive upon the Executive's death), an Executive Pension Supplement, calculated as of the effective date of such change or termination, under the Plan, provided that the Executive meets the following two conditions:
  - (1) At the time of such change or termination the Executive has vested pension benefits under the ES Pension Plan and/or any applicable pension plan of a Designated Entity; and
  - (2) At the date of such change or termination and at the date of actual retirement or death, the Executive has occupied, for the then required period next preceding such dates, a position that meets the definition of Executive in the Plan in effect at the date of such change or termination.



ARTICLE 11

Miscellaneous

Section 11.01. Benefits Not Assignable. No Executive, former Executive or Surviving Spouse shall have the right to anticipate, alienate, sell, transfer, assign, pledge, encumber, or otherwise subject to lien any of the benefits provided under this Plan. Such rights may not be subject to the debts, contracts, liabilities, engagements or torts of the Executive, former Executive or Surviving Spouse of an Executive.

Section 11.02. Facility of Payment. If the Committee deems any person entitled to receive any payment under the Plan incapable of receiving it by reason of age, illness, infirmity, mental incompetency or incapacity of any kind, the Committee may, in its discretion, direct that payment be made in any one or more of the following manners:

- (a) Applying the amount directly for the comfort, support and maintenance of the payee;
- (b) Reimbursing any person for any such support supplied by any other person to the payee;
- (c) Paying the amount to a legal representative or guardian or any other person selected by the Committee on behalf of the payee; or
- (d) Depositing the amount in a bank account to the credit of the payee.

Section 11.03. Committee Rules. Payment of benefits will be made in accordance with the rules and procedures of the Committee.

Section 11.04. Limitation on Rights. The Company, in adopting this Plan, will not be held to create or vest in any Executive or any other person any interest, pension or benefits other than the benefits specifically provided herein, or to confer upon any Executive the right to remain in the service of the Company.

Section 11.05. Benefits Unsecured. Any assets purchased by the Company to provide benefits under this Plan will at all times remain subject to the claims of general creditors of the Company and any Executive, former Executive or Surviving Spouse of an Executive participating in the Plan has only an unsecured promise to pay benefits from the Company.

Section 11.06. Governing Law. To the extent not preempted by federal law, the law of the State of Maryland will govern the construction and administration of the Plan.

Section 11.07. Severability. If any provision of this Plan or its application to any circumstance or person is held to be invalid by a court of competent jurisdiction, the remainder of the Plan and the application of such provision to other circumstances or persons will not be affected thereby.

Section 11.08. Expanded Benefits. The Board or the Compensation Committee of the Board may, from time to time and without notice, by resolution of the Board or of the Compensation Committee of the Board, authorize the payment of benefits or expand the benefits otherwise payable or to be payable to any one or more individuals.

Section 11.09. Plan Costs. Benefits payable under the Plan and any expenses in connection therewith will be paid by the Company to the extent they are not available to be paid from any trust fund established by the Company to help defray the costs of providing Plan benefits.

Section 11.10. Termination of Participation. Participation in the Plan will terminate:

- (a) in the case of a nonvested Executive, upon separation from service with a Participating Company or Designated Entity;
- (b) in the case of a vested Executive, when payment of all amounts due with respect to the Executive are paid, or purported to be paid, by the Plan.

ARTICLE 12

Change in Control

Section 12.01. Definition. The term “Change in Control” means the occurrence of one or more of the following events:

(a) There will be consummated:

(1) Any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company’s common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company’s common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or

(2) Any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(b) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(c) (1) Any person (as such term is defined in section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), corporation or other entity will purchase any common stock of the Company (or securities convertible into Company common stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, unless, prior to the making of such purchase of Company common stock (or securities convertible into Company common stock), the Board will determine that the making of such purchase will not constitute a Change in Control; or

(2) Any person (as such term is defined in section 13(d) of the Exchange Act), corporation or other entity (other than the Company or any benefit plan sponsored by the Affiliated Companies) will become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act:), directly or indirectly, of securities of the Company representing twenty percent or more of the combined voting power of the Company’s then outstanding securities ordinarily (and apart from any rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board will determine that such person so becoming such beneficial owner will not constitute a Change in Control; or

(d) At any time during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board will cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

Section 12.02. Vesting and Funding Rules. Notwithstanding any other provision of the Plan, upon a Change in Control, as defined above, all Executives will be deemed fully vested under this Plan, but only such vesting as to the otherwise applicable five-year service requirement. In addition, upon a Change in Control, but only under circumstances where the successor, surviving or parent company of Northrop Grumman Corporation or the successor plan sponsor or any successor thereto, if any, does not agree to assume the obligation to provide benefits under this Plan as they become due and payable, then an amount sufficient to fund all unpaid benefits and any Surviving Spouse benefits payable under this Plan will be paid immediately by the Company to a Trustee pursuant to a Trust Agreement for the payment of such benefits at the earliest date available in accordance with the provisions of the Plan and on such terms as the committee composed of the Company's Chief Executive Officer, Chief Financial Officer and General Counsel, will deem appropriate (including a direction to the Trustee to pay immediately all benefits on a present value basis and/or such other terms as they may deem appropriate). Notwithstanding this funding, the Company will be obligated to pay benefits to Executives and to Surviving Spouses of Executives to the extent such funding proves to be insufficient. To the extent such funding proves to be more than sufficient, any excess will revert to the Company.

Section 12.03. Special Retirement Provisions. Upon a Change in Control, for any Executive in the Plan who is involuntarily separated and who is not then eligible for a Normal or Special Retirement Pension under the ES Pension Plan, such separation will be deemed to be a separation due to a "Permanent Job Separation", and the Special Retirement Pension provisions under the ES Pension Plan will be used for purposes of determining eligibility and payment of benefits to such Executive under the Plan.

Section 12.04. Calculation of Present Value. The present value of benefits payable by the Trustee will be calculated for specific groups of Executives at the time of the Change in Control as follows:

(a) The present value of the benefits payable from this Plan to Executives who have retired at the time of the Change in Control (as well as benefits payable from this Plan to any Surviving Spouse of an Executive) will be calculated by using the PBGC immediate discount rate established and in effect for the beginning of the calendar year in which the Change in Control occurs.

(b) The present value of the benefits payable from this Plan to Executives who are eligible to retire under the terms of this Plan at the time of the Change in Control will be calculated by using the PBGC immediate discount rates established and in effect at the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is immediately payable at the time of the Change in Control.

(c) The present value of the benefits payable from this Plan to Executives who have completed at least 30 years of service with a Participating Company or a Designated Entity but have not yet attained age 58 at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 58.

(d) The present value of benefits payable from this Plan to Executives who have completed at least 10 years of service with a Participating Company or a Designated Entity but less than 30 years of service at the time of the Change in Control, but have not yet attained age 60 at the time of the Change in Control, will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 60.

(e) The present value of benefits payable from this Plan to Executives who have completed less than 10 years of service with a Participating Company or a Designated Entity at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 65.

Section 12.05. Calculation of Offset. In calculating the benefit payable to each Executive, any offset for the ES Pension Plan or other plan in which the Executive participates, will be based upon the last official pension file data available, adjusted to the date of any Change in Control by assuming that the most recent salary reflected in the pension file remains constant.

Section 12.06. Limitation on Amendment, Suspension and Termination. Notwithstanding any provision of this Plan, this Plan may not be:

- (a) Amended such that future benefits would be reduced;
- (b) Suspended; or
- (c) Terminated;

as to the further accrual of benefits, for a period of 24 months following a Change in Control; and as to the payment of benefits, at any time prior to the last payment, determined in accordance with the provisions of this Plan, to each Executive, former Executive receiving benefits under the Plan, or eligible spouse.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 22 day of February, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ J. Michael Hateley  
J. Michael Hateley  
Corporate Vice President and Chief Human  
Resources and Administrative Officer

APPENDIX A

Executive Buyback

Section A.01. Introduction. The Executive Buy Back process permits newly eligible Executives to “buy back” past years of Executive Benefit Service under the Plan for periods of time during which they did not make the Maximum Contribution.

Section A.02. Buy Back Offer. If an Employee did not make the Maximum Contribution during each of the years of his or her Vesting Service prior to the time he or she first became an Executive, the Employee will be permitted to pay make-up payments of Maximum Contributions in order to “buy back” his or her non-contributory years of service.

(a) The make-up payments required are the Maximum Contributions that would have been payable during the 10 years prior to the date he or she first became an Executive (or such lesser period from the date the Employee was employed by a Participating Company or a Designated Entity) plus compounded interest on those amounts.

(b) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to make up Maximum Contributions not only for his or her periods of participation under this Plan but also Maximum Contributions that would have been due under the Westinghouse Plan. The terms of (a) will be interpreted to include the corresponding terms under the Westinghouse Plan and the 10-year period will include periods before the Westinghouse Acquisition.

Section A.03. One-Time Opportunity. Upon qualifying as an Executive, an Executive will be offered an Executive Buy Back opportunity at the time he or she first becomes an Executive (or when this Appendix first becomes effective, if later). The actual terms of the Executive Buy Back will be determined from time to time by the Committee. This election will be offered one time to the Executive and his or her decision whether or not to “buy back” will be irrevocable.

Section A.04. Payment. Executive Buy Back payments are pre-tax and are made from compensation by deferral elections entered into prior to the year in which the compensation is determined and paid. Executive Buy Back payments will not be deposited into the ES Pension Plan trust and will not increase the Executive’s Qualified Plan Benefit.

Section A.05. Refund of Buy Back Payment. If, at some point, an Employee is no longer an Executive or otherwise becomes ineligible to receive an Executive Pension Supplement, any Executive Buy Back payments the Employee has made (including any interest the Employee paid) plus any other amount as defined in Section 2.16(b)(2) in the definition of Maximum Contribution paid by the Employee to the Company will be refunded, with interest at such time as the Employee meets one of the following criteria:

(a) Termination or retirement from a Participating Company or a Designated Entity; or

(b) Death;

provided, however, no refund will be made if the Employee is an eligible Executive, whether or not the amount of his or her Executive Pension Supplement exceeds zero. All interest rates will be determined at the discretion of the Committee.

Section A.06. Effective Date. The provisions of this Appendix permitting Buy Backs will become effective on a date specified by resolution of the Committee specifically citing this Section.

APPENDIX B

Rehired Executives

Section B.01. Retired Executives Rehired as Executives. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired in an Executive position by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

(a) Monthly Payments: For an Executive with a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments;

(2) If, but only if, the Executive is Retirement Eligible at the time of subsequent actual retirement:

(A) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive's retirement will be restored; and

(B) The Executive's Executive Pension Supplement will be recalculated in accordance with the Plan at his or her subsequent actual retirement date as long as the Executive then meets all Plan benefit qualification requirements;

(3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;

(4) The Executive's Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;

(5) If the Executive elected to take a lump sum Qualified Plan Benefit with respect to his or her initial retirement, then in any subsequent calculation of the Executive's Executive Pension Supplement, the Executive's Executive Pension Base will be reduced by both the Executive's Qualified Plan Benefit received at the time of the initial retirement and the Executive's Qualified Plan Benefit accrued from the date of rehire through the date of his or her subsequent retirement.

(b) Lump Sums: For an Executive who received a lump sum Executive Pension Supplement and who is Retirement Eligible at the time of subsequent actual retirement:

(1) Previous years of Vesting Service will be restored but not previous years of Executive Benefit Service;



(2) The Plan will calculate the Executive's additional Executive Pension Supplement at his or her subsequent actual retirement date on the basis of years of service after the rehire in accordance with the Plan as the Executive then meets all Plan benefit qualification requirements;

(3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;

(4) The Executive's Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;

(5) If the Executive elected a monthly Qualified Plan Benefit with respect to his or her initial retirement, then the Executive's Qualified Plan Benefit accrued from the date of rehire through the subsequent date of actual retirement will be subtracted from the Executive's Executive Pension Base in calculating the Executive's additional Executive Pension Supplement at his or her subsequent retirement.

Section B.02. Former Executives with Vested Pensions Rehired as Executives. If the employment of an Executive of a Participating Company or a Designated Entity who was eligible only for a vested pension under the relevant qualified defined benefit or Defined Contribution Plan, if any, was terminated and the Executive is rehired by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

(a) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive's termination of employment will be restored;

(b) The Executive must meet the requirement of five years of continuous service as an Executive prior to a subsequent actual retirement, counting only years of service after the rehire;

(c) Only base salary and incentive awards earned after the rehire will be used in computing Average Annual Compensation;

(d) If the Executive elected to take his or her vested pension as a lump sum, in any calculation of an Executive Pension Supplement at actual retirement, the Executive's Executive Pension Base will be reduced by both the Executive's Qualified Plan Benefit at the time of the initial termination of employment and the Executive's Qualified Plan Benefit accrued from the date of rehire through the date of actual retirement.

Section B.03. Retired Executives Rehired in Non-Executive Positions. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired by a Participating Company, Designated Entity, or any other Affiliated Company in a non-Executive position, the following provisions apply:

(a) For a former Executive who was receiving a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments;

(2) If, but only if, the former Executive is still Retirement Eligible at the time of subsequent actual retirement, the Plan will recommence Executive Pension Supplement payments at the time of the Executive's subsequent actual retirement without recalculation of amount;

(3) At subsequent actual retirement, the former Executive may receive any form of payment of his or her Executive Pension Supplement then permitted under the Plan, as selected by the Committee.

(b) For a former Executive who received his or her Executive Pension Supplement as a lump sum, no further benefits will be paid by the Plan.

Section B.04. Events That Span Westinghouse Acquisition. This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C) and this Appendix is to be interpreted accordingly.

(a) Reductions for payments of Qualified Plan Benefits will be interpreted to include reductions for payments of similar benefits under Westinghouse plans.

(b) Determination of the form of Qualified Plan Benefits will take into account the form of payments under Westinghouse plans.

(c) The terms of this Appendix will be interpreted, where appropriate, to include the corresponding terms under the Westinghouse Plan and to take into account events both before and after the Westinghouse Acquisition.

Section B.05. Breaks Spanning March 1, 1996. There may be Executives who participated in the Westinghouse Plan but because of a break in their service did not become employees of the Affiliated Companies on March 1, 1996 as a result of the Westinghouse Acquisition.

(a) Those Executives might be hired later by the Electronic Sensors & Systems Division.

(b) They will in no case be entitled to service or compensation credits or benefits under this Plan with respect to any service or compensation prior to their first hire by the Electronic Sensors & Systems Division after March 1, 1996. The Executives will not be considered to have previously met the requirement of five years of continuous service as an Executive.

APPENDIX C

Coordination With Westinghouse Plan

Section C.01. In General. As part of the Westinghouse Acquisition, this Plan was established by Northrop Grumman Corporation.

(a) This Plan is intended to be a continuation of the Westinghouse Plan with only minor changes.

(b) This Plan assumes remaining liabilities of the Westinghouse Plan with regard to those participants of the Westinghouse Plan who became Employees of the Northrop Grumman controlled group on March 1, 1996 as a result of the Westinghouse Acquisition. Accordingly, benefits earned by Participants of this Plan under the Westinghouse Plan before March 1, 1996 are payable under this Appendix.

(c) Employees first hired after the Westinghouse Acquisition will therefore not be affected by this Appendix and will have their pension benefits governed entirely by the other Articles and Appendices of this Plan.

Section C.02. Pre-Acquisition Benefits.

(a) Except as provided in Sections C.03 and C.04, benefits earned under the Westinghouse Executive Pension Plan are in addition to the benefits which may be earned under Articles 4 and 5.

(b) The Westinghouse Plan benefits will be calculated taking into account all pertinent facts for determining benefits under the Westinghouse Plan's provisions (including benefits and contributions under Westinghouse plans) as they have existed from time to time.

Section C.03. Coordination of Pre and Post-Acquisition Benefits. The Plan will be interpreted in light of events before and after the Westinghouse Acquisition to coordinate the calculation of benefits (including service and compensation components, benefits and contributions under Westinghouse plans and rehire provisions) under this Appendix and benefits based on Articles 4 and 5 so that the Plan will function as if it were essentially a continuation of the Westinghouse Plan.

Section C.04. No Duplication of Benefits. Because this Plan is intended as a continuation of the Westinghouse Plan, this Plan will not pay any benefits already paid or payable by the Westinghouse Plan itself.

**YOUR BENEFIT PLAN**

**Northrop Grumman Corporation**

Chief Executive Officer  
Elected Employee Officers  
Vice Presidents

**Basic Life Insurance**

Effective July 1, 2003

Certificate Number 34

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Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, CA 90067

TO OUR EMPLOYEES:

All of us appreciate the protection and security insurance provides.

This certificate describes the benefits that are available to you. We urge you to read it carefully.

Northrop Grumman Corporation



LOGO

Metropolitan Life Insurance Company  
One Madison Avenue, New York, New York 10010-3690

**CERTIFICATE OF INSURANCE**

Metropolitan Life Insurance Company ("MetLife"), a stock company, certifies that You are insured for the benefits described in this certificate, subject to the provisions of this certificate. This certificate is issued to You under the Group Policy and it includes the terms and provisions of the Group Policy that describe Your insurance. **PLEASE READ THIS CERTIFICATE CAREFULLY.**

This certificate is part of the Group Policy. The Group Policy is a contract between MetLife and the Policyholder and may be changed or ended without Your consent or notice to You.

**Policyholder:** Northrop Grumman Corporation  
**Group Policy Number:** 91360-2-G  
**Type of Insurance:** Term Life Insurance  
**MetLife Toll Free Number(s):**  
**For Claim Information** FOR LIFE CLAIMS: 1-800-638-6420

PLEASE AFFIX THE STICKER  
SHOWING THE EMPLOYEE'S  
NAME AND EFFECTIVE DATE  
IN THIS SPACE.

**THIS CERTIFICATE ONLY DESCRIBES TERM LIFE INSURANCE.**

**THE BENEFITS OF THE POLICY PROVIDING YOU COVERAGE ARE GOVERNED PRIMARILY BY THE LAWS OF A STATE OTHER THAN FLORIDA.**

**THE GROUP INSURANCE POLICY PROVIDING COVERAGE UNDER THIS CERTIFICATE WAS ISSUED IN A JURISDICTION OTHER THAN MARYLAND AND MAY NOT PROVIDE ALL THE BENEFITS REQUIRED BY MARYLAND LAW.**

**For Residents of North Dakota:** If you are not satisfied with your Certificate, You may return it to Us within 20 days after You receive it, unless a claim has previously been received by Us under Your Certificate. We will refund within 30 days of our receipt of the returned Certificate any Premium that has been paid and the Certificate will then be considered to have never been issued. You should be aware that, if you elect to return the Certificate for a refund of premiums, losses which otherwise would have been covered under your Certificate will not be covered.

**WE ARE REQUIRED BY STATE LAW TO INCLUDE THE NOTICE(S) WHICH APPEAR ON THIS PAGE AND IN THE NOTICE(S) SECTION WHICH FOLLOWS THIS PAGE. PLEASE READ THE(SE) NOTICE(S) CAREFULLY.**

**IMPORTANT NOTICE**

**AVISO IMPORTANTE**

To obtain information or make a complaint:

Para obtener informacion o para someter una queja:

You may call MetLife's toll free telephone number for information or to make a complaint at

usted puede llamar al numero de telefono gratis de MetLife para informacion o para someter una queja al

1-800-638-6420

1-800-638-6420

You may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or complaints at

Puede comunicarse con el Departamento de Seguros de Texas para obtener informacion acerca de companias, coberturas, derechos o quejas al

1-800-252-3439

1-800-252-3439

You may write the Texas Department of Insurance

Puede escribir al Departamento de Seguros de Texas

P.O. Box 149104  
Austin, TX 78714-9104  
Fax # (512) 475-1771

P.O. Box 149104  
Austin, TX 78714-9104  
Fax # (512) 475-1771

**PREMIUM OR CLAIM DISPUTES:** Should You have a dispute concerning Your premium or about a claim You should contact MetLife first. If the dispute is not resolved, You may contact the Texas Department of Insurance.

**DISPUTAS SOBRE PRIMAS O RECLAMOS:** Si tiene una disputa concerniente a su prima o a un reclamo, debe comunicarse con MetLife primero. Si no se resuelve la disputa, puede entonces comunicarse con el departamento (TDI).

**ATTACH THIS NOTICE TO YOUR CERTIFICATE:**

This notice is for information only and does not become a part or condition of the attached document.

**UNA ESTE AVISO A SU CERTIFICADO:**

Este aviso es solo para proposito de informacion y no se convierte en parte o condicion del documento adjunto.

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**NOTICE FOR RESIDENTS OF ALL STATES**

**LIFE INSURANCE BENEFITS WILL BE REDUCED IF AN ACCELERATED BENEFIT IS PAID**

**DISCLOSURE:** The Life Insurance accelerated benefit offered under this certificate is intended to qualify for favorable tax treatment under the Internal Revenue Code of 1986. If this benefit qualifies for such favorable tax treatment, the benefit will be excludable from Your income and not subject to federal taxation. Tax laws relating to accelerated benefits are complex. You are advised to consult with a qualified tax advisor about circumstances under which You could receive an accelerated benefit excludable from income under federal law.

**DISCLOSURE:** Receipt of an accelerated benefit may affect Your, Your Spouse's or Your family's eligibility for public assistance programs such as Medical Assistance (Medicaid), Aid to Families with Dependent Children (AFDC), Supplementary Social Security Income (SSI), and drug assistance programs. You are advised to consult with a qualified tax advisor and with social service agencies concerning how receipt of such payment will affect Your, Your Spouse's and Your family's eligibility for public assistance.



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**NOTICE FOR RESIDENTS OF ARKANSAS**

If You have a question concerning Your coverage or a claim, first contact the Policyholder or group account administrator. If, after doing so, You still have a concern, You may call the toll free telephone number shown on the Certificate Face Page.

If You are still concerned after contacting both the Policyholder and MetLife, You should feel free to contact:

Arkansas Insurance Department  
Consumer Services Division  
1200 West Third  
Little Rock, Arkansas 72201-1904  
1-800-852-5494

**NOTICE FOR RESIDENTS OF CALIFORNIA**

**IMPORTANT NOTICE**

**TO OBTAIN ADDITIONAL INFORMATION, OR TO MAKE A COMPLAINT, CONTACT THE POLICYHOLDER OR THE METLIFE CLAIM OFFICE SHOWN ON THE EXPLANATION OF BENEFITS YOU RECEIVE AFTER FILING A CLAIM.**

**IF, AFTER CONTACTING THE POLICYHOLDER AND/OR METLIFE, YOU FEEL THAT A SATISFACTORY SOLUTION HAS NOT BEEN REACHED, YOU MAY FILE A COMPLAINT WITH THE CALIFORNIA INSURANCE DEPARTMENT AT:**

**DEPARTMENT OF INSURANCE  
300 SOUTH SPRING STREET  
LOS ANGELES, CA 90013  
1 (800) 927-4357**

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**NOTICE FOR RESIDENTS OF GEORGIA**

**IMPORTANT NOTICE**

The laws of the state of Georgia prohibit insurers from unfairly discriminating against any person based upon his or her status as a victim of family violence.

**NOTICE FOR RESIDENTS OF ILLINOIS**

**IMPORTANT NOTICE**

To make a complaint to MetLife you may write to:

MetLife  
1 Madison Avenue  
New York, New York 10010

The address of the Illinois Department of Insurance is:

Illinois Department of Insurance  
Public Services Division  
Springfield, Illinois 62767

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**NOTICE FOR RESIDENTS OF MINNESOTA**

This is a life insurance policy which pays accelerated death benefits at your option under conditions specified in the policy. This policy is not a long-term care policy meeting the requirements of sections M.S.62A.46 to 62A.56 or chapter 62S.

## CIVIL UNION NOTICE FOR RESIDENTS OF VERMONT

Vermont law provides that the following definitions apply to your certificate:

- Terms that mean or refer to a marital relationship, or that may be construed to mean or refer to a marital relationship, such as “marriage,” “spouse,” “husband,” “wife,” “dependent,” “next of kin,” “relative,” “beneficiary,” “survivor,” “immediate family” and any other such terms include the relationship created by a Civil Union established according to Vermont law.
- Terms that mean or refer to the inception or dissolution of a marriage, such as “date of marriage,” “divorce decree,” “termination of marriage” and any other such terms include the inception or dissolution of a Civil Union established according to Vermont law.
- Terms that mean or refer to family relationships arising from a marriage, such as “family,” “immediate family,” “dependent,” “children,” “next of kin,” “relative,” “beneficiary,” “survivor” and any other such terms include family relationships created by a Civil Union established according to Vermont law.
- “Dependent” includes a spouse, a party to a Civil Union established according to Vermont law, and a child or children (natural, step-child, legally adopted or a minor or disabled child who is dependent on the insured for support and maintenance) who is born to or brought to a marriage or to a Civil Union established according to Vermont law.
- “Child” includes a child (natural, stepchild, legally adopted or a minor or disabled child who is dependent on the insured for support and maintenance) who is born to or brought to a marriage or to a Civil Union established according to Vermont law.
- “Civil Union” means a civil union established pursuant to Act 91 of the 2000 Vermont Legislative Session, entitled “Act Relating to Civil Unions”.

All references in this notice to Civil Unions are limited to Civil Unions in which the parties are residents of Vermont.

If dependent insurance for a spouse and/or child is not provided under your certificate, such insurance is not added by virtue of this notice.

For purposes of dependent insurance, any person who meets the definition of “dependent” as set forth in this notice is required to meet all other applicable requirements in order to qualify for such insurance.

This notice does not limit any definitions or terms included in your certificate. It broadens definitions and terms only to the extent required by Vermont law.

### **DISCLOSURE:**

Vermont law grants parties to a Civil Union the same benefits, protections and responsibilities that flow from marriage under state law. However, some or all of the benefits, protections and responsibilities related to life and health insurance that are available to married persons under federal law may not be available to parties to a Civil Union. For example, a federal law, the Employee Retirement Income Security Act of 1974 known as “ERISA”, controls the employer/employee relationship with regard to determining eligibility for enrollment in private employer benefit plans. Because of ERISA, Act 91 does not state requirements pertaining to a private employer’s enrollment of a party to a Civil Union in an ERISA employee benefit plan. However, governmental employers (not federal government) are required to provide life and health benefits to the dependents of a party to a Civil Union if the public employer provides such benefits to dependents of married persons. Federal law also controls group health insurance continuation rights under “COBRA” for employers with 20 or more employees as well as the Internal Revenue Code treatment of insurance premiums. As a result, parties to a Civil Union and their families may or may not have access to certain benefits under this notice and the certificate to which it is attached that derive from federal law. You are advised to seek expert advice to determine your rights under this notice and the certificate to which it is attached.

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**FOR RESIDENTS OF VIRGINIA**

**IMPORTANT INFORMATION REGARDING YOUR INSURANCE**

In the event you need to contact someone about this insurance for any reason please contact your agent. If no agent was involved in the sale of this insurance, or if you have additional questions you may contact the insurance company issuing this insurance at the following address and telephone number:

MetLife  
1 Madison Avenue  
New York, New York 10010  
Attn: Corporate Customer Relations Department

To phone in a claim related question, you may call Claims Customer Service at:  
1-800-275-4638

If you have been unable to contact or obtain satisfaction from the company or the agent, you may contact the Virginia State Corporation Commission's Bureau of Insurance at:

Life and Health Division  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23209  
1-800-552-7945 - In-state toll-free  
1-804-371-9691 - Out-of-state

Written correspondence is preferable so that a record of your inquiry is maintained. When contacting your agent, company or the Bureau of Insurance, have your policy number available.

**KEEP THIS NOTICE WITH YOUR INSURANCE PAPERS**

**PROBLEMS WITH YOUR INSURANCE?** - If you are having problems with your insurance company or agent, do not hesitate to contact the insurance company or agent to resolve your problem.

MetLife  
Attn: Corporate Consumer Relations Department  
1 Madison Avenue  
New York, NY 10010-3690  
1-800-638-5433

You can also contact the **OFFICE OF THE COMMISSIONER OF INSURANCE**, a state agency which enforces Wisconsin's insurance laws, and file a complaint. You can contact the **OFFICE OF THE COMMISSIONER OF INSURANCE** by contacting:

Office of the Commissioner of Insurance  
Complaints Department  
P.O. Box 7873  
Madison, WI 53707-7873  
1-800-236-8517 outside of Madison or 266-0103 in Madison.



**NOTICE FOR RESIDENTS OF ALL STATES  
FRAUD WARNING**

If You have applied for insurance under a policy issued in one of the following states, **or** if You reside in one of the following states, note the following applicable warning:

**For Residents of New York - only applies to Accident and Health Insurance (AD&D/Disability/Dental)**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

**For Residents of Florida**

Any person who knowingly and with intent to injure, defraud or deceive any insurer files a statement of claim or an application containing any false, incomplete or misleading information is guilty of a felony of the third degree.

**For Residents of Kansas and Massachusetts**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or a statement of claim containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, and may subject such person to criminal and civil penalties.

**For Residents of New Jersey**

Any person who includes any false or misleading information on an application for an insurance policy or who knowingly files a statement of claim containing any false or misleading information is subject to criminal and civil penalties.

**For Residents of Oklahoma**

Any person who knowingly, and with intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

**For Residents of Oregon**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto may be guilty of insurance fraud, and may be subject to criminal and civil penalties.

**For Residents of Virginia**

Any person who, with the intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or statement of claim containing a false or deceptive statement may have violated state law.

**For Residents of All Other States**

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or a statement of claim containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.

## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
CERTIFICATE FACE PAGE	1
NOTICES	2
SCHEDULE OF BENEFITS	14
DEFINITIONS	15
ELIGIBILITY PROVISIONS: INSURANCE FOR YOU	17
Eligible Classes	17
Date You Are Eligible for Insurance	17
Enrollment Process	17
Date Your Insurance Takes Effect	17
Date Your Insurance Ends	18
CONTINUATION OF INSURANCE WITH PREMIUM PAYMENT	19
For Family And Medical Leave	19
At Your Option: Continuation Of Your Life Insurance During A Labor Dispute	19
At The Policyholder's Option	19
EVIDENCE OF INSURABILITY	20
LIFE INSURANCE: FOR YOU	21
LIFE INSURANCE: ACCELERATED BENEFITS OPTION (ABO) FOR YOU	22
LIFE INSURANCE: CONVERSION OPTION FOR YOU	24
FILING A CLAIM	26
GENERAL PROVISIONS	27
Assignment	27
Beneficiary	27
Entire Contract	27
Incontestability: Statements Made by You	27
Misstatement of Age	27
Conformity with Law	28
Autopsy	28

**SCHEDULE OF BENEFITS (continued)**

This schedule shows the benefits that are available under the Group Policy. You will only be insured for the benefits:

- for which You become and remain eligible;
- which You elect, if subject to election; and
- which are in effect.

**BENEFIT**

**BENEFIT AMOUNTS AND HIGHLIGHTS**

**Life Insurance For You**

For Active Employees	An amount equal to 3 times Your Basic Annual Earnings, rounded to the next higher \$1,000
Maximum Life Benefit	\$2,000,000
Accelerated Benefit Option	Up to 50% of Your Basic Life amount not to exceed \$200,000

**If You Are Age 65 Or Older**

If You are age 65 or older on Your effective date of insurance, the appropriate percentage from the following table will be applied to the amount of Your Basic Life on Your effective date of insurance adjusted for any later changes in Your salary.

If You are under age 65 on Your effective date of insurance, the amounts of Your Basic Life Insurance on and after age 65 will be determined by applying the appropriate percentage from the following table to the amount of Your insurance in effect on the day before Your 65th birthday adjusted for any later changes in Your salary:

<u>Age of Employee</u>	<u>Percentage</u>
65	92%
66	84%
67	76%
68	68%
69	60%
70 or older	50%

## DEFINITIONS

As used in this certificate, the terms listed below will have the meanings set forth below. When defined terms are used in this certificate, they will appear with initial capitalization. The plural use of a term defined in the singular will share the same meaning.

**Actively at Work or Active Work** means that You are performing all of the usual and customary duties of Your job on a Full-Time basis. This must be done at:

- the Policyholder's place of business;
- an alternate place approved by the Policyholder; or
- a place to which the Policyholder's business requires You to travel.

You will be deemed to be Actively at Work during weekends or Policyholder approved vacations, holidays or business closures if You were Actively at Work on the last scheduled work day preceding such time off.

**Basic Annual Earnings** means Your gross annual rate of pay as determined by Your Policyholder, excluding overtime and other extra pay. "Basic Annual Earnings" for You if You are a salesman includes commissions and/or bonuses which shall be averaged for the most recent 12 month period.

**Beneficiary** means the person(s) to whom We will pay insurance as determined in accordance with the General Provisions section.

**Full-Time** means Active Work on the Policyholder's regular work schedule for the eligible class of employees to which You belong. The work schedule must be at least 20 hours a week.

**Noncontributory Insurance** means insurance for which the Policyholder does not require You to pay any part of the premium.

**Physician** means:

- a person licensed to practice medicine in the jurisdiction where such services are performed; or
- any other person whose services, according to applicable law, must be treated as Physician's services for purposes of the Group Policy. Each such person must be licensed in the jurisdiction where he performs the service and must act within the scope of that license. He must also be certified and/or registered if required by such jurisdiction.

**The term does not include:**

- You;
- Your Spouse; or
- any member of Your immediate family including Your and/or Your Spouse's:
  - parents;
  - children (natural, step or adopted);
  - siblings;
  - grandparents; or
  - grandchildren.

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**DEFINITIONS (continued)**

**Proof** means Written evidence satisfactory to Us that a person has satisfied the conditions and requirements for any benefit described in this certificate. When a claim is made for any benefit described in this certificate, Proof must establish:

- the nature and extent of the loss or condition;
- Our obligation to pay the claim; and
- the claimant's right to receive payment.

Proof must be provided at the claimant's expense.

**Signed** means any symbol or method executed or adopted by a person with the present intention to authenticate a record, which is on or transmitted by paper or electronic media which is acceptable to Us and consistent with applicable law.

**Spouse** means Your lawful Spouse.

**We, Us and Our** mean MetLife.

**Written or Writing** means a record which is on or transmitted by paper or electronic media which is acceptable to Us and consistent with applicable law.

**You and Your** mean an employee who is insured under the Group Policy for the insurance described in this certificate.

## ELIGIBILITY PROVISIONS: INSURANCE FOR YOU

### ELIGIBLE CLASS(ES)

- Policyholder's Chief Executive Officer;
- Elected Employees Officers, both direct and non-direct report to Chief Executive Officer; or
- All Vice Presidents of the Policyholder.

### DATE YOU ARE ELIGIBLE FOR INSURANCE

You may only become eligible for the insurance available for Your eligible class as shown in the SCHEDULE OF BENEFITS.

If You are in an eligible class on July 1, 2003, You will be eligible for the insurance described in this certificate on that date.

If You enter an eligible class after July 1, 2003, You will be eligible for the insurance described in this certificate on the date You enter that class.

### Previous Employment With The Policyholder

If You were employed by the Policyholder and insured by Us under a policy of group life insurance when Your employment ended, You will not be eligible for life insurance under this Group Policy if You are re-hired by the Policyholder within 2 years after such employment ended, unless You surrender any individual policy of life insurance to which You converted when Your employment ended.

The cash value, if any, of such surrendered insurance will be paid to You.

### ENROLLMENT PROCESS

If You are eligible for insurance, You may enroll for such insurance by completing an enrollment form.

### DATE YOUR INSURANCE TAKES EFFECT

#### Rules for Noncontributory Insurance

When You complete the enrollment process for Noncontributory Insurance, such insurance will take effect on the date You become eligible, provided You are Actively at Work on that date.

If You are not Actively at Work on the date the Noncontributory Insurance would otherwise take effect, the benefit will take effect on the day You resume Active Work.

### Increase in Insurance

An increase in insurance due to a change in class of employee, an increase in Your earnings, or a requested increase in insurance will take effect as follows:

- if You are **required** to give evidence of insurability for the entire increase in insurance and We approve Your evidence of insurability, the increase will take effect on the date We state in Writing. If We do not approve Your evidence of insurability, or You do not submit evidence of insurability, the increase in insurance will not take effect.
- If You are **required** to give evidence of insurability for a portion of the increase in insurance:
  - The portion of the increase in insurance that is not subject to evidence of insurability will take effect on the date of Your request or the date of the increase in Your earnings.
  - if We approve Your evidence of insurability, the portion of the increase in insurance that is subject to evidence of insurability will take effect on the date We state in writing. If We do not approve Your evidence of insurability or You do not submit evidence of insurability, the increase in insurance will not take effect.

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**ELIGIBILITY PROVISIONS: INSURANCE FOR YOU (continued)**

- If You are **not required** to give evidence of insurability, the increase will take effect on the date of Your request or the date of the increase in Your earnings.

If You are not Actively at Work on the date insurance would otherwise take effect, insurance will take effect on the day You resume Active Work.

**Decrease in Insurance**

A decrease in insurance due to a change in class of employee or a decrease in Your earnings will take effect on the date of change.

If You make a Written application to decrease Your insurance, that decrease will take effect as of the date of Your application.

**DATE YOUR INSURANCE ENDS**

Your insurance will end on the earliest of:

1. the date the Group Policy ends; or
2. the date insurance ends for Your class; or
3. the end of the period for which the last premium has been paid for You; or
4. the date Your employment ends; Your employment will end if You cease to be Actively at Work in any eligible class, except as stated in the section entitled CONTINUATION OF INSURANCE WITH PREMIUM PAYMENT; or
5. the date You retire in accordance with the Policyholder's retirement plan.

Please refer to the section entitled LIFE INSURANCE: CONVERSION OPTION FOR YOU for information concerning the option to convert to an individual policy of life insurance if Your Life Insurance ends.

Please refer to the section entitled CONTINUATION OF INSURANCE WITH PREMIUM PAYMENT for information concerning Continuation For Family and Medical Leave and continuation of the insurance at the Policyholder's option.

## **CONTINUATION OF INSURANCE WITH PREMIUM PAYMENT**

### **FOR FAMILY AND MEDICAL LEAVE**

Certain leaves of absence may qualify under the Family and Medical Leave Act of 1993 (FMLA) for continuation of insurance. Please contact the Policyholder for information regarding the FMLA.

### **AT YOUR OPTION: CONTINUATION OF YOUR LIFE INSURANCE DURING A LABOR DISPUTE**

You may elect to continue Life Insurance for You if You cease to be Actively at Work as the result of a labor dispute. Such insurance will continue for up to 6 months if the following conditions are met:

- at least 75% of the Employees eligible to continue insurance elect to continue this insurance for such time period; and
- You pay the required premium for such insurance.

If continued, Life Insurance for You will end if:

- Premium payment is required and You fail to pay premiums for such insurance;
- the number of Employees who elect to continue such insurance falls below 75% of all employees eligible to continue this insurance for such time period; or
- You cease to be eligible to continue Life Insurance for You under this section and You do not immediately resume Active Work in a class that is eligible for such insurance.

### **AT THE POLICYHOLDER'S OPTION**

The Policyholder has elected to continue insurance by paying premiums for his employees who cease Active Work in an eligible class for any of the reasons specified below:

1. if You cease Active Work due to injury or sickness, up to 24 months;
2. if You cease Active Work due to part-time work contact the Policyholder to determine if Your insurance can be continued and for how long;
3. if You cease Active Work due to strike contact the Policyholder to determine if Your insurance can be continued and for how long;
4. if You cease Active Work due to any other Policyholder approved leave of absence, up to 1 month following the end of the month in which the leave began.

At the end of any of the continuation periods listed above, Your insurance will be affected as follows:

- if You resume Active Work in an eligible class at this time, You will continue to be insured under the Group Policy;
- if You do not resume Active Work in an eligible class at this time, Your employment will be considered to end and Your insurance will end in accordance with the Date Your Insurance Ends subsection of the section entitled ELIGIBILITY PROVISIONS: INSURANCE FOR YOU.

### **Option To Convert**

In addition to the Continuation of Insurance options described above, You may have the right to convert to a policy of individual life insurance. We urge You to read the section entitled LIFE INSURANCE: CONVERSION OPTION FOR YOU.



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**EVIDENCE OF INSURABILITY**

No evidence of insurability is required for the insurance described in this certificate.

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**LIFE INSURANCE: FOR YOU**

If You die, Proof of Your death must be sent to Us. When We receive such Proof with the claim, We will review the claim and, if We approve it, will pay the Beneficiary the Life Insurance in effect on the date of Your death.

**PAYMENT OPTIONS**

We will pay the Life Insurance in one sum. Other modes of payment may be available upon request. For details, call Our toll free number shown on the Certificate Face Page.

## **LIFE INSURANCE: ACCELERATED BENEFIT OPTION (ABO) FOR YOU**

For purposes of this section, the term “ABO Eligible Life Insurance” refers to each of Your Life Insurance benefits for which the Accelerated Benefit Option is shown as available in the SCHEDULE OF BENEFITS.

If You become Terminally Ill, You or Your legal representative have the option to request Us to pay ABO Eligible Life Insurance before Your death. This is called an accelerated benefit. The request must be made while ABO Eligible Life Insurance is in effect.

**Terminally Ill or Terminal Illness** means that due to injury or sickness, You are expected to die within 6 months.

### **Requirements For Payment of an Accelerated Benefit**

Subject to the conditions and requirements of this section, We will pay an accelerated benefit to You or Your legal representative if:

- the amount of each ABO Eligible Life Insurance benefit to be accelerated equals or exceeds \$10,000; and
- the ABO Eligible Life Insurance to be accelerated has not been assigned; and
- We have received Proof that You are Terminally Ill.

We will only pay an accelerated benefit for each ABO Eligible Life Insurance benefit once.

### **Proof of Your Terminal Illness**

We will require the following Proof of Your Terminal Illness:

- a completed accelerated benefit claim form;
- a signed Physician’s certification that You are Terminally Ill; and
- an examination by a Physician of Our choice, at Our expense, if We request it.

You or Your legal representative should contact the Policyholder to obtain a claim form and information regarding the accelerated benefit.

Upon Our receipt of Your request to accelerate benefits, We will send You a letter with information about the accelerated benefit payment You requested. Our letter will describe the amount of the accelerated benefits We will pay and the amount of Life Insurance remaining after the accelerated benefit is paid.

### **Accelerated Benefit Amount**

We will pay an accelerated benefit up to the percentage shown in the SCHEDULE OF BENEFITS for each ABO Eligible Life Insurance benefit in effect for You, subject to the following:

**Maximum Accelerated Benefit Amount.** The maximum amount We will pay for each ABO Eligible Life Insurance benefit is shown in the SCHEDULE OF BENEFITS.

**Scheduled Reduction of an ABO Eligible Life Insurance Benefit.** If an ABO Eligible Life Insurance benefit is scheduled to reduce within the 6 month period after the date You or Your legal representative request an accelerated benefit, We will calculate the accelerated benefit using the amount of such ABO Eligible Life Insurance that will be in effect immediately after the reduction(s) scheduled for such period.

**Scheduled End of an ABO Eligible Life Insurance Benefit.** If an ABO Eligible Life Insurance benefit is scheduled to end within 6 months after the date You or Your legal representative request an accelerated benefit, We will not pay an accelerated benefit for such ABO Eligible Life Insurance benefit.

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**LIFE INSURANCE: ACCELERATED BENEFIT OPTION (ABO) FOR YOU (continued)**

**Previous Conversion of an ABO Eligible Life Insurance Benefit.** We will not pay an accelerated benefit for any amount of ABO Eligible Life Insurance which You previously converted under the section entitled LIFE INSURANCE: CONVERSION OPTION FOR YOU.

We will pay the accelerated benefit in one sum unless You or Your legal representative select another payment mode.

**Effect of Payment of an Accelerated Benefit**

**On premium for Your Life Insurance.** After We pay the accelerated benefit, any premium You are required to pay will be based upon the amount of Your Life Insurance remaining after the accelerated benefit is paid.

**On Your Life Insurance at Your death.** The amount of Life Insurance that We will pay at Your death will be decreased by the amount of the accelerated benefit paid by Us.

**On Your Life Insurance at conversion.** The amount to which You are entitled to convert under the section entitled LIFE INSURANCE: CONVERSION OPTION FOR YOU, will be decreased by the amount of the accelerated benefit paid by Us.

**Date Your Option to Accelerate Benefits Ends**

The accelerated benefit option will end on the earliest of:

- the date You attain age 63;
- the date the ABO Eligible Life Insurance ends;
- the date You or Your legal representative assign all ABO Eligible Life Insurance; or
- the date You or Your legal representative have accelerated all ABO Eligible Life Insurance benefits.

## **LIFE INSURANCE: CONVERSION OPTION FOR YOU**

If Your Life Insurance ends for any of the reasons stated below, You have the option to buy an individual policy of life insurance (“new policy”) from Us during the Application Period in accordance with the conditions and requirements of this section. This is referred to as the “option to convert”. Evidence of Your insurability will not be required.

### **When You Will Have the Option to Convert**

You will have the option to convert when:

- Your Life Insurance ends because:
  - You cease to be in an eligible class;
  - Your employment ends;
  - the Group Policy ends, provided You have been insured for Life Insurance for at least 5 years; or
  - the Group Policy is amended to end Life Insurance for an eligible class of which You are a member, provided you have been insured for Life Insurance for at least 5 years.

A reduction in the amount of Your Life Insurance as a result of the payment of an accelerated benefit will not give rise to a right to convert under this section.

### **Application Period**

If You opt to convert Your Life Insurance for any of the reasons stated above, We must receive a completed conversion application form from You within the Application Period described below.

If You are given Written notice of the option to convert within 15 days before or after the date Your Life Insurance ends, the Application Period begins on the date that such Life Insurance ends and expires 31 days after such date.

If You are given Written notice of the option to convert more than 15 days after the date Your Life Insurance ends, the Application Period begins on the date such Life Insurance ends and expires 25 days from the date of such notice. In no event will the Application Period exceed 91 days from the date Your Life Insurance ends.

### **Option Conditions**

The option to convert is subject to these conditions:

1. Our receipt within the Application Period of:
  - Your Written application for the new policy; and
  - the premium due for such new policy;
2. the premium rates for the new policy will be based on:
  - Our rates then in use;
  - the form and amount of insurance;
  - Your class of risk; and
  - Your attained age when Your Life Insurance ends;
3. the new policy may be on any form then customarily offered by Us excluding term insurance;
4. the new policy will be issued without an accidental death and dismemberment benefit, a continuation benefit, an accelerated benefit option, a waiver of premium benefit or any other rider or additional benefit; and
5. the new policy will take effect on the 32<sup>nd</sup> day after the date Your Life Insurance ends; this will be the case regardless of the duration of the Application Period.

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**LIFE INSURANCE: CONVERSION OPTION FOR YOU (continued)****Maximum Amount of the New Policy**

If Your Life Insurance ends due to the end of the Group Policy or the amendment of the Group Policy to end Life Insurance for an eligible class of which You are a member, the maximum amount of insurance that You may elect for the new policy is the lesser of:

- the amount of Your Life Insurance that ends under the Group Policy less the amount of life insurance for which You become eligible under any group policy within 31 days after the date insurance ends under the Group Policy; or
- \$10,000.

If Your Life Insurance ends for any other reason the maximum amount of insurance that You may elect for the new policy is the amount of Your Life Insurance which ends under the Group Policy.

**If You Die Within 31 Days After Your Life Insurance Ends**

If You die within 31 days after Your Life Insurance ends, Proof of Your death must be sent to Us. When We receive such Proof with the claim, We will review the claim and if We approve it will pay the Beneficiary the amount of Life Insurance You were entitled to convert.

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**FILING A CLAIM**

The Policyholder should have a supply of claim forms. Obtain a claim form from the Policyholder and fill it out carefully. Return the completed claim form with the required Proof to the Policyholder. The Policyholder will certify Your insurance under the Group Policy and send the certified claim form and Proof to Us.

When We receive the claim form and Proof, We will review the claim and, if We approve it, We will pay benefits subject to the terms and provisions of this certificate and the Group Policy.

**CLAIMS FOR LIFE INSURANCE BENEFITS**

**When a claimant files a claim for Life Insurance benefits**, Proof should be sent to Us as soon as is reasonably possible after the death of an insured.

## **GENERAL PROVISIONS**

### **Assignment**

You may assign Your Life Insurance rights and benefits under the Group Policy as a gift or as a viatical assignment. We will recognize the assignee(s) under such assignment as owner(s) of Your right, title and interest in the Group Policy if:

1. a Written form satisfactory to Us, affirming this assignment, has been completed;
2. the Written form has been Signed by You and the assignee(s);
3. the Policyholder acknowledges that Your Life Insurance being assigned is in force on the life of the assignor; and
4. the Written form is delivered to Us for recording.

### **Beneficiary**

You may designate a Beneficiary in Your application or enrollment form. You may change Your Beneficiary at any time. To do so, You must send a Signed and dated, Written request to the Policyholder using a form satisfactory to Us. Your Written request to change the Beneficiary must be sent to the Policyholder within 30 days of the date You Sign such request.

You do not need the Beneficiary's consent to make a change. When We receive the change, it will take effect as of the date You Signed it. The change will not apply to any payment made in good faith by Us before the change request was recorded.

If two or more Beneficiaries are designated and their shares are not specified, they will share the insurance equally.

### **Entire Contract**

Your insurance is provided under a contract of group insurance with the Policyholder. The entire contract with the Policyholder is made up of the following:

1. the Group Policy and its Exhibits, which include the certificate(s);
2. the Policyholder's application; and
3. any amendments and/or endorsements to the Group Policy.

### **Incontestability: Statements Made by You**

Any statement made by You will be considered a representation and not a warranty. We will not use such statement to contest insurance, reduce benefits or defend a claim unless the following requirements are met:

1. the statement is in a Written application or enrollment form;
2. You have Signed the application or enrollment form; and
3. a copy of the application or enrollment form has been given to You or Your Beneficiary.

We will not use Your statements which relate to insurability to contest insurance after it has been in force for 2 years during Your life. In addition, We will not use such statements to contest an increase or benefit addition to such insurance after the increase or benefit has been in force for 2 years during Your life.

### **Misstatement of Age**

If Your age is misstated, the correct age will be used to determine if insurance is in effect and, as appropriate, We will adjust the benefits and/or premiums.



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**GENERAL PROVISIONS (continued)**

**Conformity with Law**

If the terms and provisions of this certificate do not conform to any applicable law, this certificate shall be interpreted to so conform.

**Autopsy**

We have the right to make a reasonable request for an autopsy where permitted by law. Any such request will set forth the reasons We are requesting the autopsy.

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THIS IS THE END OF THE CERTIFICATE.  
THE FOLLOWING IS ADDITIONAL INFORMATION.

**ERISA INFORMATION**

**NAME AND ADDRESS OF EMPLOYER AND PLAN ADMINISTRATOR**

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, CA 90067  
310-556-4991

**EMPLOYER IDENTIFICATION NUMBER:** 95-1055798

<u>PLAN NUMBER</u>	<u>COVERAGE</u>	<u>PLAN NAME</u>
501	Basic Life Insurance	Northrop Grumman Corporation - Northrop Grumman Health Plan

**TYPE OF ADMINISTRATION**

The above listed benefits are insured by Metropolitan Life Insurance Company (“MetLife”).

**AGENT FOR SERVICE OF LEGAL PROCESS**

For disputes arising under the Plan, service of legal process may be made upon the Plan administrator at the above address. For disputes arising under those portions of the Plan insured by MetLife, service of legal process may be made upon MetLife at one of its local offices, or upon the supervisory official of the Insurance Department in the state in which you reside.

**ELIGIBILITY FOR INSURANCE; DESCRIPTION OR SUMMARY OF BENEFITS**

Your MetLife certificate describes the eligibility requirements for insurance provided by MetLife under the Plan. It also includes a detailed description of the insurance provided by MetLife under the Plan.

**PLAN TERMINATION OR CHANGES**

The group policy sets forth those situations in which the Employer and/or MetLife have the rights to end the policy.

The Employer reserves the right to change or terminate the plan at any time. Therefore, there is no guarantee that you will be eligible for the insurance described herein for the duration of your employment. Any such action will be taken only after careful consideration.

Your consent or the consent of your beneficiary is not required to terminate, modify, amend, or change the Plan.

In the event Your insurance ends in accord with the “Date Your Insurance Ends” subsection of Your certificate, you may still be eligible to receive benefits. The circumstances under which benefits are available are described in Your MetLife certificate.

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## **CONTRIBUTIONS**

No contribution is required for Basic Life Insurance.

The total premium rate for insurance provided under the Plan by MetLife is set by MetLife.

## **PLAN YEAR**

The Plan's fiscal records are kept on a Plan year basis beginning each July 1st and ending on the following June 30th.

## **Qualified Domestic Relations Orders/Qualified Medical Child Support Orders**

You and your beneficiaries can obtain, without charge, from the Plan Administrator a copy of any procedures governing Qualified Domestic Relations Orders (QDRO) and Qualified Medical Child Support Orders (QMCSO).

## **CLAIMS INFORMATION**

### **Procedures for Presenting Claims for Life Benefits**

All claim forms needed to file for benefits under the group insurance program can be obtained from the Employer who will also be ready to answer questions about the insurance benefits and to assist you or, if applicable, the claimant in filing claims. The instructions on the claim form should be followed carefully. This will expedite the processing of the claim. Be sure all questions are answered fully.

### **Routine Questions**

If there is any question about a claim payment, an explanation may be requested from the employer who is usually able to provide the necessary information.

### **CLAIM SUBMISSION**

In submitting claims for life benefits ("Benefits"), the claimant must complete the appropriate claim form and submit the required proof as described in the certificate.

Claim forms must be submitted in accordance with the instructions on the claim form.

### **Initial Determination**

After MetLife receives your claim for Benefits, MetLife will review your claim and notify you of its decision to approve or deny your claim.

Such notification will be provided to you within a reasonable period, not to exceed 90 days from the date we received your claim, unless MetLife notifies you within that period that there are special circumstances requiring an extension of time of up to 90 additional days.

If MetLife denies your claim in whole or in part, the notification of the claims decision will state the reason why your claim was denied and reference the specific Plan provision(s) on which the denial is based. If the claim is denied because MetLife did not receive sufficient information, the claims decision will describe the additional information needed and explain why such information is needed. The notification will also include a description of the Plan review procedures and time limits, including a statement of your right to bring a civil action if your claim is denied after an appeal.

## **Appealing the Initial Determination**

In the event a claim has been denied in whole or in part, you or, if applicable, your beneficiary can request a review of your claim by MetLife. This request for review should be sent in writing to Group Insurance Claims Review at the address of MetLife's office which processed the claim within 60 days after you or, if applicable, your beneficiary received notice of denial of the claim. When requesting a review, please state the reason you or, if applicable, your beneficiary believe the claim was improperly denied and submit in writing any written comments, documents, records or other information you or, if applicable, your beneficiary deem appropriate. Upon your written request, MetLife will provide you free of charge with copies of relevant documents, records and other information.

MetLife will re-evaluate all the information, will conduct a full and fair review of the claim, and you or, if applicable, your beneficiary will be notified of the decision. Such notification will be provided within a reasonable period not to exceed 60 days from the date we received your request for review, unless MetLife notifies you within that period that there are special circumstances requiring an extension of time of up to 60 additional days.

If MetLife denies the claim on appeal, MetLife will send you a final written decision that states the reason(s) why the claim you appealed is being denied, references any specific Plan provision(s) on which the denial is based, any voluntary appeal procedures offered by the Plan, and a statement of your right to bring a civil action if your claim is denied after an appeal. Upon written request, MetLife will provide you free of charge with copies of documents, records and other information relevant to your claim.

### **Discretionary Authority of Plan Administrator and Other Plan Fiduciaries**

In carrying out their respective responsibilities under the Plan, the Plan administrator and other Plan fiduciaries shall have discretionary authority to interpret the terms of the Plan and to determine eligibility for and entitlement to Plan benefits in accordance with the terms of the Plan. Any interpretation or determination made pursuant to such discretionary authority shall be given full force and effect, unless it can be shown that the interpretation or determination was arbitrary and capricious.

### **STATEMENT OF ERISA RIGHTS**

The following statement is required by federal law and regulation.

As a participant in the Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all participants shall be entitled to:

#### **Receive Information About Your Plan and Benefits**

Examine, without charge, at the Plan administrator's office and at other specified locations, all Plan documents, including insurance contracts and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, including insurance contracts and copies of the latest annual report (Form 5500 Series) and updated summary plan descriptions. The administrator may make a reasonable charge for the copies.

Receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

#### **Prudent Actions by Plan Fiduciaries**

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries.

No one, including your employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

### **Enforce Your Rights**

If your claim for a welfare benefit is denied or ignored in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the latest annual report and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court.

In addition, if you disagree with the Plan's decision or lack thereof concerning the qualified status of a domestic relations order or a medical child support order, you may file suit in a Federal court.

If it should happen that Plan fiduciaries misuse the Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a Federal court.

The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees.

If you lose, the court may order you to pay these costs and fees; for example, if it finds your claim is frivolous.

### **Assistance with Your Questions**

If you have any questions about your Plan, you should contact the Plan administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

### **FUTURE OF THE PLAN**

It is hoped that the Plan will be continued indefinitely, but Northrop Grumman Corporation reserves the right to change or terminate the Plan in the future. Any such action would be taken only after careful consideration.

The Board of Directors of Northrop Grumman Corporation shall be empowered to amend or terminate the Plan or any benefit under the Plan at any time.

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

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

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

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

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

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

**California Life and Health  
Insurance Guaranty Association  
P.O. Box 17319  
Beverly Hills, CA 90209-3319**

**OR**

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

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

**COVERAGE**

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

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## **EXCLUSIONS FROM COVERAGE**

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

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

The Association also does not provide coverage for:

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

## **LIMITS ON AMOUNT OF COVERAGE**

The Act limits the Association to pay benefits as follows:

### **Life and Annuity Benefits**

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

### **Health Benefits**

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

## **PREMIUM SURCHARGE**

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



**GROUP ACCIDENT POLICY**

**POLICYHOLDER:** Trustee of the Group Insurance Trust for Employers in  
the Manufacturing Industry  
**POLICY NUMBER:** OK 980036  
**POLICY EFFECTIVE DATE:** June 1, 2004  
**POLICY ANNIVERSARY DATE:** July 1  
**STATE OF ISSUE:** Delaware

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

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

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

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

*Susan L. Cooper*

Susan L. Cooper, Secretary

*Gregory H. Wolf*

Gregory H. Wolf, President

Countersigned \_\_\_\_\_

Where Required By Law

## TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE NUMBER</u>
SCHEDULE OF AFFILIATES	1
SCHEDULE OF BENEFITS	2
GENERAL DEFINITIONS	13
ELIGIBILITY AND EFFECTIVE DATE PROVISIONS	16
COMMON EXCLUSIONS	17
CONVERSION PRIVILEGE	18
CLAIM PROVISIONS	19
ADMINISTRATIVE PROVISIONS	21
GENERAL PROVISIONS	22
ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGE	24
EXPOSURE AND DISAPPEARANCE COVERAGE	25
HIJACKING AND AIR PIRACY COVERAGE	25
OWNED AIRCRAFT COVERAGE	25
PILOT COVERAGE	25
WAR RISK COVERAGE	26
BRAIN DAMAGE BENEFIT	26
FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT	26
HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT	27
REHABILITATION BENEFIT	27
SEATBELT AND AIRBAG BENEFIT	28
MODIFYING PROVISIONS AMENDMENT	29
GA-00-1000.00	

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**SCHEDULE OF AFFILIATES**

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

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

## SCHEDULE OF BENEFITS

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

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

**Subscriber:** Northrop Grumman Corporation

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

**Minimum Participation Requirements:**  
Percentage Not applicable

### **Covered Classes:**

- Class 1 All active, Full-time Employees of the Employer who are members of Executive Class 1, Executive Class 2, Executive Class 3 and Executive Class 4 as on file with the Subscriber.
- Class 2 All active, Full-time Employees of the Employer excluding Employees who are members of Executive Classes 1, 2, 3, 4, 5, 6 and 8 as on file with the Subscriber.
- Class 3 All active, Full-time Employees of the Employer who are members of Executive Class 5: Non Vice Presidents whose Salary Grade is 49 and above, as on file with the Subscriber.
- Class 4 All active, Full-time Employees of the Employer who are members of Executive Class 6: Non Vice Presidents whose Salary Grade is below 49, as on file with the Subscriber.
- Class 5 All active, Full-time Employees of the Employer who are members of Executive Class 8: those designated by Logicon Human Resources, as on file with the Subscriber.

**SCHEDULE OF BENEFITS FOR CLASS 1**

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

**Eligibility Waiting Period**

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

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

**Time Period for Loss:**

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

**BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS**

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

**SCHEDULE OF COVERED LOSSES**

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

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**HIJACKING AND AIR PIRACY COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**OWNED AIRCRAFT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**PILOT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**WAR RISK COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**ADDITIONAL ACCIDENT BENEFITS**

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

**BRAIN DAMAGE BENEFIT**

100% of the Principal Sum

**FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

Accidental Death and Dismemberment Benefit

10% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*, subject to a minimum of \$100 and a maximum of \$10,000

**HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

Benefit

10% of the Principal Sum subject to a maximum of \$25,000

**REHABILITATION BENEFIT**

Benefit per Covered Accident

20% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, subject to a minimum of \$4,500 and a maximum of \$18,000

**SEATBELT AND AIRBAG BENEFIT**

Seatbelt Benefit

20% of the Principal Sum subject to a Maximum Benefit of \$25,000

Airbag Benefit

10% of the Principal Sum subject to a Maximum Benefit of \$10,000

**INITIAL PREMIUM RATES**

Premium Rate:

Basic Insurance

Employee Rate: \$0.017 per \$1000

Mode of Premium Payment:

Monthly

Contributions:

The cost of the coverage is paid by the Employer

Premium Due Dates:

The Policy Effective Date and the first day of each succeeding modal period

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

GA-00-1100.00

**SCHEDULE OF BENEFITS FOR CLASS 2**

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

**Eligibility Waiting Period**

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

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

**Time Period for Loss:**

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

**BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS**

Employee Principal Sum: 1 times the Employee’s Annual Compensation, subject to a minimum of \$50,000 and a maximum of \$1,000,000

**SCHEDULE OF COVERED LOSSES**

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

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**HIJACKING AND AIR PIRACY COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**OWNED AIRCRAFT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**PILOT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**WAR RISK COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**ADDITIONAL ACCIDENT BENEFITS**

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

**BRAIN DAMAGE BENEFIT**

100% of the Principal Sum

**FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

Accidental Death and Dismemberment Benefit

10% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*, subject to a minimum of \$100 and a maximum of \$10,000

**HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

Benefit

10% of the Principal Sum subject to a maximum of \$25,000

**REHABILITATION BENEFIT**

Benefit per Covered Accident

20% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, subject to a minimum of \$4,500 and a maximum of \$18,000

**SEATBELT AND AIRBAG BENEFIT**

Seatbelt Benefit

20% of the Principal Sum subject to a Maximum Benefit of \$25,000

Airbag Benefit

10% of the Principal Sum subject to a Maximum Benefit of \$10,000

**INITIAL PREMIUM RATES**

Premium Rate:

Basic Insurance

Employee Rate: \$0.017 per \$1000

Mode of Premium Payment:

Monthly

Contributions:

The cost of the coverage is paid by the Employer

Premium Due Dates:

The Policy Effective Date and the first day of each succeeding modal period

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

GA-00-1100.00



**SCHEDULE OF BENEFITS FOR CLASS 3**

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

**Eligibility Waiting Period**

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

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

**Time Period for Loss:**

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

**BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS**

Employee Principal Sum: 4 times the Employee’s Annual Compensation, subject to a maximum of \$1,000,000

**SCHEDULE OF COVERED LOSSES**

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

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**HIJACKING AND AIR PIRACY COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**OWNED AIRCRAFT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**PILOT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**WAR RISK COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**ADDITIONAL ACCIDENT BENEFITS**

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

**BRAIN DAMAGE BENEFIT**

100% of the Principal Sum

**FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

Accidental Death and Dismemberment Benefit

10% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*, subject to a minimum of \$100 and a maximum of \$10,000

**HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

Benefit

10% of the Principal Sum subject to a maximum of \$25,000

**REHABILITATION BENEFIT**

Benefit per Covered Accident

20% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, subject to a minimum of \$4,500 and a maximum of \$18,000

**SEATBELT AND AIRBAG BENEFIT**

Seatbelt Benefit

20% of the Principal Sum subject to a Maximum Benefit of \$25,000

Airbag Benefit

10% of the Principal Sum subject to a Maximum Benefit of \$10,000

**INITIAL PREMIUM RATES**

Premium Rate:

Basic Insurance

Employee Rate: \$0.017 per \$1000

Mode of Premium Payment:

Monthly

Contributions:

The cost of the coverage is paid by the Employer

Premium Due Dates:

The Policy Effective Date and the first day of each succeeding modal period

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

GA-00-1100.00

**SCHEDULE OF BENEFITS FOR CLASS 4**

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

**Eligibility Waiting Period**

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

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

**Time Period for Loss:**

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

**BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS**

Employee Principal Sum: The greater of \$100,000 or 1 times the Employee’s Annual Compensation, subject to a maximum of \$1,000,000

**SCHEDULE OF COVERED LOSSES**

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

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**HIJACKING AND AIR PIRACY COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**OWNED AIRCRAFT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**PILOT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**WAR RISK COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**ADDITIONAL ACCIDENT BENEFITS**

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

**BRAIN DAMAGE BENEFIT**

100% of the Principal Sum

**FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

Accidental Death and Dismemberment Benefit

10% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*, subject to a minimum of \$100 and a maximum of \$10,000

**HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

Benefit

10% of the Principal Sum subject to a maximum of \$25,000

**REHABILITATION BENEFIT**

Benefit per Covered Accident

20% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, subject to a minimum of \$4,500 and a maximum of \$18,000

**SEATBELT AND AIRBAG BENEFIT**

Seatbelt Benefit

20% of the Principal Sum subject to a Maximum Benefit of \$25,000

Airbag Benefit

10% of the Principal Sum subject to a Maximum Benefit of \$10,000

**INITIAL PREMIUM RATES**

Premium Rate:

Basic Insurance

Employee Rate: \$0.017 per \$1000

Mode of Premium Payment:

Monthly

Contributions:

The cost of the coverage is paid by the Employer

Premium Due Dates:

The Policy Effective Date and the first day of each succeeding modal period

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

GA-00-1100.00

**SCHEDULE OF BENEFITS FOR CLASS 5**

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

**Eligibility Waiting Period**

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

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

**Time Period for Loss:**

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

**BASIC ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS**

Employee Principal Sum: 4 times the Employee’s Annual Compensation, subject to a maximum of \$1,000,000

**SCHEDULE OF COVERED LOSSES**

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

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**HIJACKING AND AIR PIRACY COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**OWNED AIRCRAFT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**PILOT COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**WAR RISK COVERAGE**

Principal Sum multiplied by the percentage applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*.

**ADDITIONAL ACCIDENT BENEFITS**

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

**BRAIN DAMAGE BENEFIT**

100% of the Principal Sum

**FELONIOUS ASSAULT AND VIOLENT CRIME BENEFIT**

Accidental Death and Dismemberment Benefit

10% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, as shown in the *Schedule of Covered Losses*, subject to a minimum of \$100 and a maximum of \$10,000

**HOME ALTERATION AND VEHICLE MODIFICATION BENEFIT**

Benefit

10% of the Principal Sum subject to a maximum of \$25,000

**REHABILITATION BENEFIT**

Benefit per Covered Accident

20% multiplied by the percentage of the Principal Sum applicable to the Covered Loss, subject to a minimum of \$4,500 and a maximum of \$18,000

**SEATBELT AND AIRBAG BENEFIT**

Seatbelt Benefit

20% of the Principal Sum subject to a Maximum Benefit of \$25,000

Airbag Benefit

10% of the Principal Sum subject to a Maximum Benefit of \$10,000

**INITIAL PREMIUM RATES**

Premium Rate:

Basic Insurance

Employee Rate: \$0.017 per \$1000

Mode of Premium Payment:

Monthly

Contributions:

The cost of the coverage is paid by the Employer

Premium Due Dates:

The Policy Effective Date and the first day of each succeeding modal period

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

GA-00-1100.00

## GENERAL DEFINITIONS

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

<b>Active Service</b>	An Employee will be considered in Active Service with his Employer on any day that is either of the following: <ol style="list-style-type: none"><li>1. one of the Employer's scheduled work days on which the Employee is performing his regular duties on a full-time basis, either at one of the Employer's usual places of business or at some other location to which the Employer's business requires the Employee to travel;</li><li>2. a scheduled holiday, vacation day or period of Employer-approved paid leave of absence, other than sick leave, only if the Employee was in Active Service on the preceding scheduled workday.</li></ol>
<b>Age</b>	A Covered Person's Age, for purposes of initial premium calculations, is his Age attained on the date coverage becomes effective for him under this Policy. Thereafter, it is his Age attained on his last birthday.
<b>Aircraft</b>	A vehicle which: <ol style="list-style-type: none"><li>1. has a valid certificate of airworthiness; and</li><li>2. is being flown by a pilot with a valid license to operate the Aircraft.</li></ol>
<b>Annual Compensation</b>	An Employee's gross straight-time pay for regularly scheduled hours for a seven-day week, excluding bonuses, overtime, incentive compensation allowances, benefit dollars or other types of special compensation or as determined by the Subscriber and/or its subsidiaries.
<b>Covered Accident</b>	A sudden, unforeseeable, external event that results, directly and independently of all other causes, in a Covered Injury or Covered Loss and meets all of the following conditions: <ol style="list-style-type: none"><li>1. occurs while the Covered Person is insured under this Policy;</li><li>2. is not contributed to by disease, Sickness, mental or bodily infirmity;</li><li>3. is not otherwise excluded under the terms of this Policy.</li></ol>
<b>Covered Injury</b>	Any bodily harm that results directly and independently of all other causes from a Covered Accident.
<b>Covered Loss</b>	A loss that is all of the following: <ol style="list-style-type: none"><li>1. the result, directly and independently of all other causes, of a Covered Accident;</li><li>2. one of the Covered Losses specified in the <i>Schedule of Covered Losses</i>;</li><li>3. suffered by the Covered Person within the applicable time period specified in the <i>Schedule of Benefits</i>.</li></ol>
<b>Covered Person</b>	An eligible person, as defined in the <i>Schedule of Benefits</i> , for whom an enrollment form has been accepted by Us and required premium has been paid when due and for whom coverage under this Policy remains in force.
<b>Employee</b>	For eligibility purposes, an Employee of the Employer who is in one of the Covered Classes.
<b>Employer</b>	The Subscriber and any affiliates, subsidiaries or divisions shown in the <i>Schedule of Covered Affiliates</i> and which are covered under this Policy on the date of issue or subsequently agreed to by Us.
<b>He, His, Him</b>	Refers to any individual, male or female.

<b>Hospital</b>	<p>An institution that meets all of the following:</p> <ol style="list-style-type: none"> <li>1. it is licensed as a Hospital pursuant to applicable law;</li> <li>2. it is primarily and continuously engaged in providing medical care and treatment to sick and injured persons;</li> <li>3. it is managed under the supervision of a staff of medical doctors;</li> <li>4. it provides 24-hour nursing services by or under the supervision of a graduate registered nurse (R.N.);</li> <li>5. it has medical, diagnostic and treatment facilities, with major surgical facilities on its premises, or available on a prearranged basis;</li> <li>6. it charges for its services.</li> </ol> <p>The term Hospital does not include a clinic, facility, or unit of a Hospital for:</p> <ol style="list-style-type: none"> <li>1. rehabilitation, convalescent, custodial, educational or nursing care;</li> <li>2. the aged, drug addicts or alcoholics;</li> <li>3. a Veteran's Administration Hospital or Federal Government Hospital unless the Covered Person incurs an expense.</li> </ol>
<b>Inpatient</b>	<p>A Covered Person who is confined for at least one full day's Hospital room and board. The requirement that a person be charged for room and board does not apply to confinement in a Veteran's Administration Hospital or Federal Government Hospital and in such case, the term 'Inpatient' shall mean a Covered Person who is required to be confined for a period of at least a full day as determined by the Hospital.</p>
<b>Nurse</b>	<p>A licensed graduate Registered Nurse (R.N.), a licensed practical Nurse (L.P.N.) or a licensed vocational Nurse (L.V.N.) and who is not:</p> <ol style="list-style-type: none"> <li>1. employed or retained by the Subscriber;</li> <li>2. living in the Covered Person's household; or</li> <li>3. a parent, sibling, spouse or child of the Covered Person.</li> </ol>
<b>Outpatient</b>	<p>A Covered Person who receives treatment, services and supplies while not an Inpatient in a Hospital.</p>
<b>Permanently Totally Disabled</b>	<p>An Covered Person who is Totally Disabled and is expected to remain Totally Disabled, as certified by a Physician, for the rest of his life.</p>
<b>Prior Plan</b>	<p>The plan of insurance providing similar benefits, sponsored by the Employer in effect immediately prior to this Policy's Effective Date.</p>
<b>Physician</b>	<p>A licensed health care provider practicing within the scope of his license and rendering care and treatment to a Covered Person that is appropriate for the condition and locality and who is not:</p> <ol style="list-style-type: none"> <li>1. employed or retained by the Subscriber;</li> <li>2. living in the Covered Person's household;</li> <li>3. a parent, sibling, spouse or child of the Covered Person.</li> </ol>
<b>Sickness</b>	<p>A physical or mental illness.</p>
<b>Spouse</b>	<p>The Employee's lawful spouse.</p>
<b>Subscriber</b>	<p>Any participating organization that subscribes to the trust to which this Policy is issued.</p>



**Totally Disabled or  
Total Disability**

Totally Disabled or Total Disability means either:

1. inability of the Covered Person who is currently employed to do any type of work for which he is or may become qualified by reason of education, training or experience; or
2. inability of the Covered Person who is not currently employed to perform all of the activities of daily living including eating, transferring, dressing, toileting, bathing, and continence, without human supervision or assistance.

**We, Us, Our**

Life Insurance Company of North America.

GA-00-1200.00

## ELIGIBILITY AND EFFECTIVE DATE PROVISIONS

### Subscriber Effective Date

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

### Eligibility

An Employee becomes eligible for insurance under this Policy on the date he meets all of the requirements of one of the Covered Classes and completes any Eligibility Waiting Period, as shown in the *Schedule of Benefits*.

### Effective Date for Individuals

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

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

## DEFERRED EFFECTIVE DATE

### Active Service

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

### Effective Date of Changes

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

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

Increases will take effect subject to any Active Service requirement.

## TERMINATION OF INSURANCE

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

1. the date this Policy or insurance for a Covered Class is terminated;
2. the next premium due date after the date the Covered Person is no longer in a Covered Class or satisfies eligibility requirements under this Policy;
3. the last day of the last period for which premium is paid.

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

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

Insurance for an Employee may be continued until the earliest of the following dates if: (a) an Employee is on an Employer-approved Family Leave, Medical Leave, Educational or Personal Leave; and (b) required premium contributions are paid when due.

1. for an Employer-approved Family Leave: four months after the end of the month in which the leave begins;
2. for an Employer-approved Medical Leave: twenty-four months after the end of the month in which the leave begins;
3. for an Employer-approved Educational Leave: one month after the end of the month in which the leave begins;
4. for an Employer-approved Personal Leave: one month after the end of the month in which the leave begins.

GA-00-1300.00

## COMMON EXCLUSIONS

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

1. intentionally self-inflicted Injury, suicide or any attempt thereat while sane or insane;
2. commission or attempt to commit a felony or an assault;
3. declared or undeclared war or act of war;
4. flight in, boarding or alighting from an Aircraft or any craft designed to fly above the Earth's surface, except as:
  - a. a fare-paying passenger on a regularly scheduled commercial or charter airline;
  - b. a passenger in a non-scheduled, private Aircraft used for pleasure purposes with no commercial intent during the flight;
  - c. a passenger in a military Aircraft flown by the Air Mobility Command or its foreign equivalent;
5. Sickness, disease, bodily or mental infirmity, bacterial or viral infection or medical or surgical treatment thereof, except for any bacterial infection resulting from an accidental external cut or wound or accidental ingestion of contaminated food;
6. travel in any Aircraft owned, leased or controlled by the Subscriber, or any of its subsidiaries or affiliates. An Aircraft will be deemed to be 'controlled' by the Subscriber if the Aircraft may be used as the Subscriber wishes for more than 10 straight days, or more than 15 days in any year;
7. a Covered Accident that occurs while engaged in the activities of active duty service in the military, navy or air force of any country or international organization. Covered Accidents that occur while engaged in Reserve or National Guard training are not excluded until training extends beyond 31 days;
8. voluntary ingestion of any narcotic, drug, poison, gas or fumes, unless prescribed or taken under the direction of a Physician and taken in accordance with the prescribed dosage;
9. the Covered Person's intoxication as determined according to the laws of the jurisdiction in which the Covered Accident occurred.

GA-00-1400.00

## CONVERSION PRIVILEGE

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

- a. employment or membership ends;
- b. eligibility ends (except for age);

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

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

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

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

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

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

The Covered Person must apply for the individual policy within 31 days after his coverage under this Group Policy ends and pay the required premium, based on Our table of rates for such policies, his Age and class of risk. If the Covered Person has assigned ownership of his group coverage, the owner/assignee must apply for the individual policy.

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

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

### Exclusions

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

GA-01-1500.00

## **CLAIM PROVISIONS**

### **Notice of Claim**

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

### **Claim Forms**

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

### **Claimant Cooperation Provision**

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

### **Proof of Loss**

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

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

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

### **Payment of Claims**

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

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

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

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

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

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

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**Physical Examination and Autopsy**

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

**Legal Actions**

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

**Beneficiary**

The beneficiary is the person or persons the Employee names or changes on a form executed by him and satisfactory to Us. This form may be in writing or by any electronic means agreed upon between Us and the Subscriber. Consent of the beneficiary is not required to affect any changes, unless the beneficiary has been designated as an irrevocable beneficiary, or to make any assignment of rights or benefits permitted by this Policy.

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

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

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

1. Spouse;
2. Child or Children;
3. Mother or father;
4. Sisters or brothers;
5. Estate of the Covered Person.

**Recovery of Overpayment**

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

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

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

GA-00-1600.00

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## ADMINISTRATIVE PROVISIONS

### Premiums

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

### Changes in Premium Rates

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

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

### Payment of Premium

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

### Grace Period

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

GA-00-1700.00

## **GENERAL PROVISIONS**

### **Entire Contract; Changes**

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

### **Subscriber Participation Under This Policy**

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

### **Misstatement of Fact**

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

### **Certificates**

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

### **30 Day Right To Examine Certificate**

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

### **Multiple Certificates**

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

### **Assignment**

We will be bound by an assignment of a Covered Person's insurance under this Policy only when the original assignment or a certified copy of the assignment, signed by the Covered Person and any irrevocable beneficiary, is filed with Us. The assignee may exercise all rights and receive all benefits assigned only while the assignment remains in effect and insurance under this Policy and the Covered Person's certificate remains in force.

### **Incontestability**

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

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

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

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

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

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

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



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**Reporting Requirements**

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

**Policy Termination**

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

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

**Reinstatement**

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

**Clerical Error**

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

**Conformity with Statutes**

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

**Policy Changes**

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

**Workers' Compensation Insurance**

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

**Examination of the Policy**

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

**Examination of Records**

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

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

The Subscriber is acting as an agent of the Covered Person for transactions relating to this insurance. The actions of the Subscriber will not be considered Our actions.

GA-00-1800.00

## DESCRIPTION OF COVERAGES AND BENEFITS

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

### ACCIDENTAL DEATH AND DISMEMBERMENT BENEFITS

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

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

#### Definitions

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

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

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

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

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

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

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

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

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

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

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

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

GA-00-2100.00

**ADDITIONAL ACCIDENTAL DEATH AND DISMEMBERMENT COVERAGES**

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

**EXPOSURE AND DISAPPEARANCE COVERAGE**

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

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

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

GA-00-2202.00

**HIJACKING AND AIR PIRACY COVERAGE**

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

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

GA-00-2203.00

**OWNED AIRCRAFT COVERAGE**

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

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

GA-00-2205.00

**PILOT COVERAGE**

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

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

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

GA-00-2206.00

## **WAR RISK COVERAGE**

Benefits for Accidental Death and Dismemberment as shown in the *Schedule of Covered Losses*, will be payable, subject to the following conditions and exclusions, if a Covered Person suffers a Covered Loss that results directly and independently of all other causes from a Covered Accident that occurs during war or acts of war that occur worldwide.

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

We may cancel this coverage at any time by providing written notice to the Subscriber at least 10 days prior to termination of this coverage. Any unearned premium will be promptly returned to the Subscriber.

- Exclusions** This benefit does not provide coverage when a Covered Loss occurs:
1. in the United States and its territories and possessions; or
  2. in any nation of which the Covered Person is a citizen.

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

GA-00-2208.00

## **ADDITIONAL ACCIDENT BENEFITS**

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

### **BRAIN DAMAGE BENEFIT**

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

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

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

**Definition** For purposes of this benefit:

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

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

GA-00-2217.00

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

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

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

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

**Definition** For purposes of this benefit:

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

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

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

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

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

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

GA-00-2234.00

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

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

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

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

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

GA-00-2236.00

#### **REHABILITATION BENEFIT**

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

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

**Definition** For purposes of this benefit:

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

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

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

GA-00-2248.00

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**SEATBELT AND AIRBAG BENEFIT**

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

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

**Definitions** For purposes of this benefit:

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

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

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

GA-00-2251.00

**MODIFYING PROVISIONS AMENDMENT**

Subscriber: Northrop Grumman Corporation

Policy No.: OK 980036

Amendment Effective Date: June 1, 2004

This amendment is attached to and made part of the Policy specified above and the Certificates issued under it. Its provisions are intended to conform them to the laws and regulations of the state of California and apply only to residents of California insured under this policy.

Subscriber and We hereby agree that the Policy and any Certificates delivered under the Group Policy are amended as follows:

1. Under the *Common Exclusions* section, exclusion number 2, pertaining to the commission of a felony, is replaced with the following.
  2. commission or attempt to commit a felony or an assault, or to which a contributing cause of such commission or attempt was the Covered Person's being engaged in an illegal occupation;
2. Under Accidental Death and Dismemberment Benefits in the *Description of Coverages and Benefits* Section, the definition of Loss of a Thumb and Index Finger of the Same Hand or Four Fingers of the Same Hand is replaced with the following.

**Loss of a Thumb and Index Finger of the Same Hand** means complete Severance of at least one whole phalanx of the same hand.

Except for the above, this amendment does not change the Policy in any way.

Signed for the  
**Life Insurance Company of North America**



President

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

We, TRUSTEE OF THE GROUP INSURANCE TRUST FOR EMPLOYERS IN THE MANUFACTURING INDUSTRY, whose main office address is Wilmington, Delaware hereby apply on behalf of Northrop Grumman Corporation to the Life Insurance Company of North America for Group Policy No. OK 980036.

We approve and accept the terms of this Group Policy.

This application is to be signed in duplicate. One part is to be attached to the Group Policy; the other part is to be returned to the Life Insurance Company of North America.

TRUSTEE OF THE GROUP INSURANCE TRUST  
FOR EMPLOYERS IN THE MANUFACTURING INDUSTRY  
(Full or Corporate Name of Applicant)

Signed at: \_\_\_\_\_

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

(Signature and Title)

On: \_\_\_\_\_

Witness \_\_\_\_\_

(To be signed by Licensed Resident Agent where required by law)

(This Copy Is To Remain Attached To The Group Policy)

TL-008890

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

We, TRUSTEE OF THE GROUP INSURANCE TRUST FOR EMPLOYERS IN THE MANUFACTURING INDUSTRY, whose main office address is Wilmington, Delaware hereby apply on behalf of Northrop Grumman Corporation to the Life Insurance Company of North America for Group Policy No. OK 980036.

We approve and accept the terms of this Group Policy.

This application is to be signed in duplicate. One part is to be attached to the Group Policy; the other part is to be returned to the Life Insurance Company of North America.

TRUSTEE OF THE GROUP INSURANCE TRUST  
FOR EMPLOYERS IN THE MANUFACTURING INDUSTRY  
(Full or Corporate Name of Applicant)

Signed at: \_\_\_\_\_

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

(Signature and Title)

On: \_\_\_\_\_

Witness \_\_\_\_\_

(To be signed by Licensed Resident Agent where required by law)

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

TL-008890



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GROUP INSURANCE POLICY  
NON-PARTICIPATING**POLICYHOLDER:** Northrop Grumman Corporation**POLICY NUMBER:** 587628 001**POLICY EFFECTIVE DATE:** July 1, 2003**POLICY ANNIVERSARY DATE:** July 1**GOVERNING JURISDICTION:** California

Unum Life Insurance Company of America (referred to as Unum) will provide benefits under this policy. Unum makes this promise subject to all of this policy's provisions.

The policyholder should read this policy carefully and contact Unum promptly with any questions. This policy is delivered in and is governed by the laws of the governing jurisdiction and to the extent applicable by the Employee Retirement Income Security Act of 1974 (ERISA) and any amendments. This policy consists of:

- all policy provisions and any amendments and/or attachments issued;
- employees' signed applications; and
- the certificate of coverage.

This policy may be changed in whole or in part. Only an officer or a registrar of Unum can approve a change. The approval must be in writing and endorsed on or attached to this policy. No other person, including an agent, may change this policy or waive any part of it.

Signed for Unum at Portland, Maine on the Policy Effective Date.

Handwritten signature of the President of Unum Life Insurance Company of America.

President

Handwritten signature of the Secretary of Unum Life Insurance Company of America.

Secretary

Unum Life Insurance Company of America  
2211 Congress Street  
Portland, Maine 04122

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**TABLE OF CONTENTS**

BENEFITS AT A GLANCE	B@G-LTD-1
LONG TERM DISABILITY PLAN	B@G-LTD-1
CLAIM INFORMATION	LTD-CLM-1
LONG TERM DISABILITY	LTD-CLM-1
POLICYHOLDER PROVISIONS	EMPLOYER-1
CERTIFICATE SECTION	CC.FP-1
GENERAL PROVISIONS	EMPLOYEE-1
LONG TERM DISABILITY	LTD-BEN-1
BENEFIT INFORMATION	LTD-BEN-1
OTHER BENEFIT FEATURES	LTD-OTR-1
STATE REQUIREMENTS	STATE REQ-1
OTHER SERVICES	SERVICES-1
ERISA	ERISA-1
GLOSSARY	GLOSSARY-1

TOC-1 (7/1/2003)

**DRAFT \_\_\_\_\_**  
**BENEFITS AT A GLANCE**

**LONG TERM DISABILITY PLAN**

This long term disability plan provides financial protection for you by paying a portion of your income while you are disabled. The amount you receive is based on the amount you earned before your disability began. In some cases, you can receive disability payments even if you work while you are disabled.

**EMPLOYER'S ORIGINAL PLAN**

**EFFECTIVE DATE:** July 1, 2003

**POLICY NUMBER:** 587628 001

**ELIGIBLE GROUP(S):**

All elected or appointed officers in active employment who are elected by the Board of Directors

**MINIMUM HOURS REQUIREMENT:**

Employees must be working at least 20 hours per week.

**WAITING PERIOD:**

For employees in an eligible group on or before July 1, 2003: None

For employees entering an eligible group after July 1, 2003: None

**WHO PAYS FOR THE COVERAGE:**

Your Employer pays the cost of your coverage.

**ELIMINATION PERIOD:**

6 months

Benefits begin the day after the elimination period is completed.

**MONTHLY BENEFIT:**

65% of monthly earnings to a maximum benefit of \$15,000 per month.

**Your payment may be reduced by deductible sources of income and disability earnings. Some disabilities may not be covered or may have limited coverage under this plan.**

**MAXIMUM PERIOD OF PAYMENT:**

<u>Age at Disability</u>	<u>Maximum Period of Payment</u>
Less than age 60	To age 65, but not less than 5 years
Age 60	60 months
Age 61	48 months
Age 62	42 months
Age 63	36 months
Age 64	30 months
Age 65	24 months
Age 66	21 months
Age 67	18 months
Age 68	15 months
Age 69 and over	12 months

No premium payments are required for your coverage while you are receiving payments under this plan.

B@G-LTD-1 (7/1/2003)

**OTHER FEATURES:**

- Continuity of Coverage
- Minimum Benefit
- Pre-Existing: 3/12
- Survivor Benefit
- Work Life Assistance Program

**The above items are only highlights of this plan. For a full description of your coverage, continue reading your certificate of coverage section.**

B@G-LTD-2 (7/1/2003)

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CLAIM INFORMATION  
LONG TERM DISABILITY

**WHEN DO YOU NOTIFY UNUM OF A CLAIM?**

We encourage you to notify us of your claim as soon as possible, so that a claim decision can be made in a timely manner. Written notice of a claim should be sent within 30 days after the date your disability begins. However, you must send Unum written proof of your claim no later than 90 days after your elimination period. If it is not possible to give proof within 90 days, it must be given no later than 1 year after the time proof is otherwise required except in the absence of legal capacity.

The claim form is available from your Employer, or you can request a claim form from us. If you do not receive the form from Unum within 15 days of your request, send Unum written proof of claim without waiting for the form.

You must notify us immediately when you return to work in any capacity.

**HOW DO YOU FILE A CLAIM?**

You and your Employer must fill out your own sections of the claim form and then give it to your attending physician. Your physician should fill out his or her section of the form and send it directly to Unum.

**WHAT INFORMATION IS NEEDED AS PROOF OF YOUR CLAIM?**

Your proof of claim, provided at your expense, must show:

- that you are under the **regular care** of a **physician**;
- the appropriate documentation of your monthly earnings;
- the date your disability began;
- the cause of your disability;
- the extent of your disability, including restrictions and limitations preventing you from performing your regular occupation; and
- the name and address of any **hospital or institution** where you received treatment, including all attending physicians.

We may request that you send proof of continuing disability indicating that you are under the regular care of a physician. This proof, provided at your expense, must be received within 45 days of a request by us.

In some cases, you will be required to give Unum authorization to obtain additional medical information and to provide non-medical information as part of your proof of claim, or proof of continuing disability. Unum will deny your claim, or stop sending you payments, if the appropriate information is not submitted.

**TO WHOM WILL UNUM MAKE PAYMENTS?**

Unum will make payments to you.

**WHAT HAPPENS IF UNUM OVERPAYS YOUR CLAIM?**

Unum has the right to recover any overpayments due to:

- fraud;
- any error Unum makes in processing a claim; and
- your receipt of deductible sources of income.

You must reimburse us in full. We will determine the method by which the repayment is to be made.

Unum will not recover more money than the amount we paid you.

LTD-CLM-2 (7/1/2003)

DRAFT \_\_\_\_\_  
POLICYHOLDER PROVISIONS

**WHAT IS THE COST OF THIS INSURANCE?**

**LONG TERM DISABILITY**

The initial premium for each **plan** is based on the initial rate(s) shown in the Rate Information Amendment(s).

**WAIVER OF PREMIUM**

Unum does not require premium payments for an insured while he or she is receiving Long Term Disability payments under this plan.

**INITIAL RATE GUARANTEE**

Refer to the Rate Information Amendment(s).

**WHEN IS PREMIUM DUE FOR THIS POLICY?**

Premium Due Dates: Premium due dates are based on the Premium Due Dates shown in the Rate Information Amendment(s).

The **Policyholder** must send all premiums to Unum on or before their respective due date. The premium must be paid in United States dollars.

**WHEN ARE INCREASES OR DECREASES IN PREMIUM DUE?**

Premium increases or decreases which take effect during a policy month are adjusted and due on the next premium due date following the change. Changes will not be pro-rated daily.

If premiums are paid on other than a monthly basis, premiums for increases and decreases will result in a monthly pro-rated adjustment on the next premium due date.

Unum will only adjust premium for the current policy year and the prior policy year. In the case of fraud, premium adjustments will be made for all policy years.

**WHAT INFORMATION DOES UNUM REQUIRE FROM THE POLICYHOLDER?**

The Policyholder must provide Unum with the following on a regular basis:

- information about employees:
  - who are eligible to become insured;
  - whose amounts of coverage change; and/or
  - whose coverage ends;
- occupational information and any other information that may be required to manage a claim; and
- any other information that may be reasonably required.

Policyholder records that, in Unum's opinion, have a bearing on this policy will be available for review by Unum at any reasonable time.

EMPLOYER-1 (7/1/2003)

Clerical error or omission by Unum will not:

- prevent an employee from receiving coverage;
- affect the amount of an insured's coverage; or
- cause an employee's coverage to begin or continue when the coverage would not otherwise be effective.

***WHO CAN CANCEL THIS POLICY OR A PLAN UNDER THIS POLICY?***

This policy or a plan under this policy can be cancelled:

- by Unum; or
- by the Policyholder.

Unum may cancel or offer to modify this policy or a plan if:

- there is less than 75% participation of those eligible employees who pay all or part of their premium for a plan; or
- there is less than 100% participation of those eligible employees for a Policyholder paid plan;
- the Policyholder does not promptly provide Unum with information that is reasonably required;
- the Policyholder fails to perform any of its obligations that relate to this policy;
- fewer than 10 employees are insured under a plan;
- the Policyholder fails to pay any premium within the 60 day **grace period**.

If Unum cancels this policy or a plan for reasons other than the Policyholder's failure to pay premium, a written notice will be delivered to the Policyholder at least 120 days prior to the cancellation date.

If the premium is not paid during the grace period, the policy or plan will terminate automatically at the end of the grace period. The Policyholder is liable for premium for coverage during the grace period. The Policyholder must pay Unum all premium due for the full period each plan is in force.

The Policyholder may cancel this policy or a plan by written notice delivered to Unum at least 120 days prior to the cancellation date. When both the Policyholder and Unum agree, this policy or a plan can be cancelled on an earlier date. If Unum or the Policyholder cancels this policy or a plan, coverage will end at 12:00 midnight on the last day of coverage.

If this policy or a plan is cancelled, the cancellation will not affect a **payable claim**.

***WHAT HAPPENS TO AN EMPLOYEE'S COVERAGE UNDER THIS POLICY WHILE HE OR SHE IS ON A FAMILY AND MEDICAL LEAVE OF ABSENCE?***

We will continue the employee's coverage in accordance with the policyholder's Human Resource policy on family and medical leaves of absence if premium payments continue and the policyholder approved the employee's leave in writing.

Coverage will be continued until the end of the month in which the leave begins, plus 4 months.



If the policyholder's Human Resource policy doesn't provide for continuation of an employee's coverage during a family and medical leave of absence, the employee's coverage will be reinstated when he or she returns to active employment.

We will not:

- apply a new waiting period;
- apply a new pre-existing conditions exclusion; or
- require evidence of insurability.

***DIVISIONS, SUBSIDIARIES OR AFFILIATED COMPANIES INCLUDE:***

NAME/LOCATION (CITY AND STATE)

Refer to the contract file correspondence for a listing of names and locations approved by Unum.

EMPLOYER-3 (7/1/2003)

**DRAFT \_\_\_\_\_**  
**CERTIFICATE SECTION**

Unum Life Insurance Company of America (referred to as Unum) welcomes you as a client.

This is your certificate of coverage as long as you are eligible for coverage and you become insured. You will want to read it carefully and keep it in a safe place.

Unum has written your certificate of coverage in plain English. However, a few terms and provisions are written as required by insurance law. If you have any questions about any of the terms and provisions, please consult Unum's claims paying office. Unum will assist you in any way to help you understand your benefits.

If the terms and provisions of the certificate of coverage (issued to you) are different from the policy (issued to the policyholder), the policy will govern. Your coverage may be cancelled or changed in whole or in part under the terms and provisions of the policy.

The policy is delivered in and is governed by the laws of the governing jurisdiction and to the extent applicable by the Employee Retirement Income Security Act of 1974 (ERISA) and any amendments. When making a benefit determination under the policy, Unum has discretionary authority to determine your eligibility for benefits and to interpret the terms and provisions of the policy.

For purposes of effective dates and ending dates under the group policy, all days begin at 12:01 a.m. and end at 12:00 midnight at the Policyholder's address.

Unum Life Insurance Company of America  
2211 Congress Street  
Portland, Maine 04122

CC.FP-1 (7/1/2003)

**DRAFT \_\_\_\_\_**  
**GENERAL PROVISIONS**

***WHAT IS THE CERTIFICATE OF COVERAGE?***

This certificate of coverage is a written statement prepared by Unum and may include attachments. It tells you:

- the coverage for which you may be entitled;
- to whom Unum will make a payment; and
- the limitations, exclusions and requirements that apply within a plan.

***WHEN ARE YOU ELIGIBLE FOR COVERAGE?***

If you are working for your Employer in an eligible group, the date you are eligible for coverage is the later of:

- the plan effective date; or
- the day after you complete your **waiting period**.

***WHEN DOES YOUR COVERAGE BEGIN?***

When your Employer pays 100% of the cost of your coverage under a plan, you will be covered at 12:01 a.m. on the date you are eligible for coverage.

***WHAT IF YOU ARE ABSENT FROM WORK ON THE DATE YOUR COVERAGE WOULD NORMALLY BEGIN?***

If you are absent from work due to injury, sickness or temporary leave of absence, your coverage will begin on the date you return to **active employment**.

***ONCE YOUR COVERAGE BEGINS, WHAT HAPPENS IF YOU ARE TEMPORARILY NOT WORKING?***

If you are on a **leave of absence**, and if premium is paid, you will be covered through the end of the month that immediately follows the month in which your leave of absence begins.

***WHEN WILL CHANGES TO YOUR COVERAGE TAKE EFFECT?***

Once your coverage begins, any increased or additional coverage will take effect immediately if you are in active employment or if you are on a covered leave of absence. If you are not in active employment due to injury or sickness, any increased or additional coverage will begin on the date you return to active employment.

Any decrease in coverage will take effect immediately but will not affect a **payable claim** that occurs prior to the decrease.

***WHEN DOES YOUR COVERAGE END?***

Your coverage under the policy or a plan ends on the earliest of:

- the date the policy or a plan is cancelled;
- the date you no longer are in an eligible group;

- the date your eligible group is no longer covered;
- the last day of the period for which you made any required contributions; or
- the last day you are in active employment except as provided under the covered leave of absence provision.

Unum will provide coverage for a payable claim which occurs while you are covered under the policy or plan.

**WHAT ARE THE TIME LIMITS FOR LEGAL PROCEEDINGS?**

You can start legal action regarding your claim 60 days after proof of claim has been given and up to 3 years from the time proof of claim is required, unless otherwise provided under federal law.

**HOW CAN STATEMENTS MADE IN YOUR APPLICATION FOR THIS COVERAGE BE USED?**

Unum considers any statements you or your Employer make in a signed application for coverage a representation and not a warranty. If any of the statements you or your Employer make are not complete and/or not true at the time they are made, we can:

- reduce or deny any claim; or
- cancel your coverage from the original effective date.

We will use only statements made in a signed application as a basis for doing this.

If the Employer gives us information about you that is incorrect, we will:

- use the facts to decide whether you have coverage under the plan and in what amounts; and
- make a fair adjustment of the premium.

**HOW WILL UNUM HANDLE INSURANCE FRAUD?**

Unum wants to ensure you and your Employer do not incur additional insurance costs as a result of the undermining effects of insurance fraud. Unum promises to focus on all means necessary to support fraud detection, investigation, and prosecution.

Any person who knowingly files a statement of claim containing any false or misleading information is subject to criminal and civil penalties.

In addition, submission of false information in connection with the claim form may also constitute a crime under federal laws. Unum will pursue any appropriate legal remedies in the event of insurance fraud, including prosecuting under federal mail fraud, federal wire fraud, and/or the federal Racketeer Influenced and Corrupt Organizations Act statutes. Any false statements made herein may be reported to state and federal tax and regulatory authorities as is appropriate.

***DOES THE POLICY REPLACE OR AFFECT ANY WORKERS' COMPENSATION OR STATE DISABILITY INSURANCE?***

The policy does not replace or affect the requirements for coverage by any workers' compensation or state disability insurance.

***DOES YOUR EMPLOYER ACT AS YOUR AGENT OR UNUM'S AGENT?***

For purposes of the policy, your Employer acts on its own behalf or as your agent. Under no circumstances will your Employer be deemed the agent of Unum.

**DRAFT \_\_\_\_\_**  
**LONG TERM DISABILITY**  
**BENEFIT INFORMATION**

***HOW DOES UNUM DEFINE DISABILITY?***

You are disabled when Unum determines that:

- you are **limited** from performing the **material and substantial duties** of your **regular occupation** due to your **sickness or injury**; and
- you have a 20% or more loss in your **indexed monthly earnings** due to the same sickness or injury.

After 24 months of payments, you are disabled when Unum determines that due to the same sickness or injury, you are unable to perform the duties of any **gainful occupation** for which you are reasonably fitted by education, training or experience.

The loss of a professional or occupational license or certification does not, in itself, constitute disability.

We may require you to be examined by a physician, other medical practitioner and/or vocational expert of our choice. Unum will pay for this examination. We can require an examination as often as it is reasonable to do so. We may also require you to be interviewed by an authorized Unum Representative.

***HOW LONG MUST YOU BE DISABLED BEFORE YOU ARE ELIGIBLE TO RECEIVE BENEFITS?***

You must be continuously disabled through your **elimination period**. Unum will treat your disability as continuous if your disability stops for 30 days or less during the elimination period. The days that you are not disabled will not count toward your elimination period.

Your elimination period is 6 months.

***CAN YOU SATISFY YOUR ELIMINATION PERIOD IF YOU ARE WORKING?***

Yes. If you are working while you are disabled, the days you are disabled will count toward your elimination period.

***WHEN WILL YOU BEGIN TO RECEIVE PAYMENTS?***

You will begin to receive payments when we approve your claim, providing the elimination period has been met. We will send you a payment monthly for any period for which Unum is liable.

***HOW MUCH WILL UNUM PAY YOU IF YOU ARE DISABLED?***

We will follow this process to figure your payment:

1. Multiply your monthly earnings by 65%.
2. The maximum **monthly benefit** is \$15,000.
3. Compare the answer from Item 1 with the maximum monthly benefit. The lesser of these two amounts is your **gross disability payment**.

LTD-BEN-1 (7/1/2003)

4. Subtract from your gross disability payment any **deductible sources of income**.

The amount figured in Item 4 is your **monthly payment**.

**WHAT ARE YOUR MONTHLY EARNINGS?**

“Monthly Earnings” means your gross monthly income from your Employer in effect just prior to your date of disability. It includes your total income before taxes. It is prior to any deductions made for pre-tax contributions to a qualified deferred compensation plan, Section 125 plan, or flexible spending account. It does not include income received from commissions, bonuses, overtime pay, any other extra compensation, or income received from sources other than your Employer.

**WHAT WILL WE USE FOR MONTHLY EARNINGS IF YOU BECOME DISABLED DURING A COVERED LEAVE OF ABSENCE?**

If you become disabled while you are on a covered leave of absence, we will use your monthly earnings from your Employer in effect just prior to the date your absence begins.

**HOW MUCH WILL UNUM PAY YOU IF YOU ARE DISABLED AND WORKING?**

We will send you the monthly payment if you are disabled and your monthly **disability earnings**, if any, are less than 20% of your indexed monthly earnings, due to the same sickness or injury.

If you are disabled and your monthly disability earnings are 20% or more of your indexed monthly earnings, due to the same sickness or injury, Unum will figure your payment as follows:

During the first 12 months of payments, while working, your monthly payment will not be reduced as long as disability earnings plus the gross disability payment does not exceed 100% of indexed monthly earnings.

1. Add your monthly disability earnings to your gross disability payment.
2. Compare the answer in Item 1 to your indexed monthly earnings.

If the answer from Item 1 is less than or equal to 100% of your indexed monthly earnings, Unum will not further reduce your monthly payment.

If the answer from Item 1 is more than 100% of your indexed monthly earnings, Unum will subtract the amount over 100% from your monthly payment.

After 12 months of payments, while working, you will receive payments based on the percentage of income you are losing due to your disability.

1. Subtract your disability earnings from your indexed monthly earnings.
2. Divide the answer in Item 1 by your indexed monthly earnings. This is your percentage of lost earnings.
3. Multiply your monthly payment by the answer in Item 2.

This is the amount Unum will pay you each month.

During the first 24 months of disability payments, if your monthly disability earnings exceed 80% of your indexed monthly earnings, Unum will stop sending you payments and your claim will end.

Beyond 24 months of disability payments, if your monthly disability earnings exceed 60% of your indexed monthly earnings, Unum will stop sending you payments and your claim will end.

Unum may require you to send proof of your monthly disability earnings at least quarterly. We will adjust your payment based on your quarterly disability earnings.

As part of your proof of disability earnings, we can require that you send us appropriate financial records which we believe are necessary to substantiate your income.

After the elimination period, if you are disabled for less than 1 month, we will send you 1/30 of your payment for each day of disability.

**HOW CAN WE PROTECT YOU IF YOUR DISABILITY EARNINGS FLUCTUATE?**

If your disability earnings routinely fluctuate widely from month to month, Unum may average your disability earnings over the most recent 3 months to determine if your claim should continue.

If Unum averages your disability earnings, we will not terminate your claim unless:

- During the first 24 months of disability payments, the average of your disability earnings from the last 3 months exceeds 80% of indexed monthly earnings; or
- Beyond 24 months of disability payments, the average of your disability earnings from the last 3 months exceeds 60% of indexed monthly earnings.

We will not pay you for any month during which disability earnings exceed the amount allowable under the plan.

**WHAT ARE DEDUCTIBLE SOURCES OF INCOME?**

Unum will subtract from your gross disability payment the following deductible sources of income:

1. The amount that you receive or are entitled to receive under:
  - a workers' compensation law.
  - an occupational disease law.
  - any other **act** or **law** with similar intent.
2. The amount that you receive or are entitled to receive as disability income payments under any:
  - state compulsory benefit **act** or **law**.
  - other group insurance plan.
  - governmental retirement system as a result of your job with your Employer.



3. The amount that you receive or are entitled to receive as disability payments or the amount you receive as retirement payments under:
- the United States Social Security Act.
  - the Canada Pension **Plan**.
  - the Quebec Pension Plan.
  - any similar plan or act.

We will not offset for any amount received by your spouse or dependents.

4. The amount that you:
- receive as disability payments under your Employer's **retirement plan**.
  - voluntarily elect to receive as retirement payments under your Employer's retirement plan.
  - receive as retirement payments when you reach the later of age 62 or normal retirement age, as defined in your Employer's retirement plan.

Disability payments under a retirement plan will be those benefits which are paid due to disability and do not reduce the retirement benefit which would have been paid if the disability had not occurred.

Retirement payments will be those benefits which are based on your Employer's contribution to the retirement plan. Disability benefits which reduce the retirement benefit under the plan will also be considered as a retirement benefit.

Regardless of how the retirement funds from the retirement plan are distributed, Unum will consider your and your Employer's contributions to be distributed simultaneously throughout your lifetime.

Amounts received do not include amounts rolled over or transferred to any eligible retirement plan. Unum will use the definition of eligible retirement plan as defined in Section 402 of the Internal Revenue Code including any future amendments which affect the definition.

5. The amount that you receive under Title 46, United States Code Section 688 (The Jones Act).
6. The amount that you receive under the mandatory portion of any "no fault" motor vehicle **plan**.
7. The amount that you receive under a **salary continuation** or **accumulated sick leave** plan.
8. The amount that you receive from a third party (after subtracting attorney's fees) by judgment, settlement or otherwise.

With the exception of retirement payments, Unum will only subtract deductible sources of income which are payable as a result of the same disability.

We will not reduce your payment by your Social Security retirement income if your disability begins after age 65 and you were already receiving Social Security retirement payments.

**WHAT ARE NOT DEDUCTIBLE SOURCES OF INCOME?**

Unum will not subtract from your gross disability payment income you receive from, but not limited to, the following:

- 401(k) plans
- profit sharing plans
- thrift plans
- tax sheltered annuities
- stock ownership plans
- non-qualified plans of deferred compensation
- pension plans for partners
- military pension and disability income plans
- credit disability insurance
- franchise disability income plans
- a retirement plan from another Employer
- individual retirement accounts (IRA)
- individual disability income plans
- severance payments

**WHAT IF SUBTRACTING DEDUCTIBLE SOURCES OF INCOME RESULTS IN A ZERO BENEFIT? (Minimum Benefit)**

The minimum monthly payment is the greater of:

- \$100; or
- 10% of your gross disability payment.

Unum may apply this amount toward an outstanding overpayment.

**WHAT HAPPENS WHEN YOU RECEIVE A COST OF LIVING INCREASE FROM DEDUCTIBLE SOURCES OF INCOME?**

Once Unum has subtracted any deductible source of income from your gross disability payment, Unum will not further reduce your payment due to a cost of living increase from that source.

**WHAT IF UNUM DETERMINES YOU MAY QUALIFY FOR DEDUCTIBLE INCOME BENEFITS?**

When we determine that you may qualify for benefits under Item(s) 1, 2 and 3 in the deductible sources of income section, we will estimate your entitlement to these benefits. We can reduce your payment by the estimated amounts if such benefits:

- have not been awarded; and
- have not been denied; or
- have been denied and the denial is being appealed.

Your Long Term Disability payment will NOT be reduced by the estimated amount if you:

- apply for the disability payments under Item(s) 1, 2 and 3 in the deductible sources of income section and appeal your denial to all administrative levels Unum feels are necessary; and

- sign Unum’s payment option form. This form states that you promise to pay us any overpayment caused by an award.

If your payment has been reduced by an estimated amount, your payment will be adjusted when we receive proof:

- of the amount awarded; or
- that benefits have been denied and all appeals Unum feels are necessary have been completed. In this case, a lump sum refund of the estimated amount will be made to you.

If you receive a lump sum payment from any deductible sources of income, the lump sum will be pro-rated on a monthly basis over the time period for which the sum was given. If no time period is stated, we will use a reasonable one.

**HOW LONG WILL UNUM CONTINUE TO SEND YOU PAYMENTS?**

Unum will send you a payment each month up to the **maximum period of payment**. Your maximum period of payment is based on your age at disability as follows:

<u>Age at Disability</u>	<u>Maximum Period of Payment</u>
Less than age 60	To age 65, but not less than 5 years
Age 60	60 months
Age 61	48 months
Age 62	42 months
Age 63	36 months
Age 64	30 months
Age 65	24 months
Age 66	21 months
Age 67	18 months
Age 68	15 months
Age 69 and over	12 months

**WHEN WILL PAYMENTS STOP?**

We will stop sending you payments and your claim will end on the earliest of the following:

- during the first 24 months of payments, when you are able to work in your regular occupation on a **part-time basis** but you choose not to;
- after 24 months of payments, when you are able to work in any gainful occupation on a part-time basis but you choose not to;
- the end of the maximum period of payment;
- the date you are no longer disabled under the terms of the plan;
- the date you fail to submit proof of continuing disability;
- the date your disability earnings exceed the amount allowable under the plan;
- the date you die.

**WHAT DISABILITIES HAVE A LIMITED PAY PERIOD UNDER YOUR PLAN?**

Disabilities due to **mental illness**, alcoholism or drug abuse have a limited pay period up to 24 months.

Unum will continue to send you payments beyond the 24 month period if you meet one or both of these conditions:

1. If you are confined to a **hospital or institution** at the end of the 24 month period, Unum will continue to send you payments during your confinement.

If you are still disabled when you are discharged, Unum will send you payments for a recovery period of up to 90 days.

If you become reconfined at any time during the recovery period and remain confined for at least 14 days in a row, Unum will send payments during that additional confinement and for one additional recovery period up to 90 more days.

2. In addition to Item 1, if, after the 24 month period for which you have received payments, you continue to be disabled and subsequently become confined to a hospital or institution for at least 14 days in a row, Unum will send payments during the length of the reconfinement.

Unum will not pay beyond the limited pay period as indicated above, or the maximum period of payment, whichever occurs first.

Unum will not apply the mental illness limitation to dementia if it is a result of:

- stroke;
- trauma;
- viral infection;
- Alzheimer's disease; or
- other conditions not listed which are not usually treated by a mental health provider or other qualified provider using psychotherapy, psychotropic drugs, or other similar methods of treatment.

**WHAT DISABILITIES ARE NOT COVERED UNDER YOUR PLAN?**

Your plan does not cover any disabilities caused by, contributed to by, or resulting from your:

- intentionally self-inflicted injuries.
- active participation in a riot.
- loss of a professional license, occupational license or certification.
- commission of a crime for which you have been convicted under state or federal law.
- pre-existing condition.

Your plan will not cover a disability due to war, declared or undeclared, or any act of war.

Unum will not pay a benefit for any period of disability during which you are incarcerated.

**WHAT IS A PRE-EXISTING CONDITION?**

You have a pre-existing condition if:

- you received medical treatment, consultation, care or services including diagnostic measures, or took prescribed drugs or medicines in the 3 months just prior to your effective date of coverage; and

- the disability begins in the first 12 months after your effective date of coverage.

**WHAT HAPPENS IF YOU RETURN TO WORK FULL TIME AND YOUR DISABILITY OCCURS AGAIN?**

If you have a **recurrent disability**, Unum will treat your disability as part of your prior claim and you will not have to complete another elimination period if:

- you were continuously insured under the plan for the period between your prior claim and your recurrent disability; and
- your recurrent disability occurs within 6 months of the end of your prior claim.

Your recurrent disability will be subject to the same terms of this plan as your prior claim.

Any disability which occurs after 6 months from the date your prior claim ended will be treated as a new claim. The new claim will be subject to all of the policy provisions.

If you become entitled to payments under any other group long term disability plan, you will not be eligible for payments under the Unum plan.

**DRAFT \_\_\_\_\_**  
**LONG TERM DISABILITY**

**OTHER BENEFIT FEATURES**

***WHAT BENEFITS WILL BE PROVIDED TO YOUR FAMILY IF YOU DIE? (Survivor Benefit)***

When Unum receives proof that you have died, we will pay your **eligible survivor** a lump sum benefit equal to 3 months of your gross disability payment if, on the date of your death:

- your disability had continued for 180 or more consecutive days; and
- you were receiving or were entitled to receive payments under the plan.

If you have no eligible survivors, payment will be made to your estate, unless there is none. In this case, no payment will be made.

However, we will first apply the survivor benefit to any overpayment which may exist on your claim.

***WHAT IF YOU ARE NOT IN ACTIVE EMPLOYMENT WHEN YOUR EMPLOYER CHANGES INSURANCE CARRIERS TO UNUM? (Continuity of Coverage)***

When the plan becomes effective, Unum will provide coverage for you if:

- you are not in active employment because of a sickness or injury; and
- you were covered by the prior policy.

Your coverage is subject to payment of premium.

Your payment will be limited to the amount that would have been paid by the prior carrier. Unum will reduce your payment by any amount for which your prior carrier is liable.

***WHAT IF YOU HAVE A DISABILITY DUE TO A PRE-EXISTING CONDITION WHEN YOUR EMPLOYER CHANGES INSURANCE CARRIERS TO UNUM? (Continuity of Coverage)***

Unum may send a payment if your disability results from a pre-existing condition if, you were:

- in active employment and insured under the plan on its effective date; and
- insured by the prior policy at the time of change.

In order to receive a payment you must satisfy the pre-existing condition provision under:

1. the Unum plan; or
2. the prior carrier's plan, if benefits would have been paid had that policy remained in force.

If you do not satisfy Item 1 or 2 above, Unum will not make any payments.

LTD-OTR-1 (7/1/2003)

If you satisfy Item 1, we will determine your payments according to the Unum plan provisions.

If you only satisfy Item 2, we will administer your claim according to the Unum plan provisions. However, your payment will be the lesser of:

- a. the monthly benefit that would have been payable under the terms of the prior plan if it had remained inforce; or
- b. the monthly payment under the Unum plan.

Your benefits will end on the earlier of the following dates:

1. the end of the maximum benefit period under the plan; or
2. the date benefits would have ended under the prior plan if it had remained in force.

LTD-OTR-2 (7/1/2003)

**DRAFT \_\_\_\_\_**  
**STATE REQUIREMENTS**

**CALIFORNIA**  
**CONTACT NOTICE**

**GENERAL QUESTIONS: If you have any general questions about your insurance, you may contact the Insurance Company by:**

**CALLING:**

1-800-421-0344 (Customer Information Call Center)

**-OR-**

**WRITING TO:**

Unum Life Insurance Company of America  
2211 Congress Street  
Portland, Maine 04122

**COMPLAINTS: If a complaint arises about your insurance, you may contact the Insurance Company by:**

**CALLING:**

(Compliance Center Complaint Line)  
Toll free: 1-800-321-3889, Option 2  
Direct: 207-575-7568

**-OR-**

**WRITING TO:**

Deborah J. Jewett, Manager, Customer Relations  
Unum Life Insurance Company of America  
2211 Congress Street  
Portland, Maine 04122

**WHEN CALLING OR WRITING TO THE INSURANCE COMPANY, PLEASE PROVIDE YOUR INSURANCE POLICY NUMBER.**

If the Policy or Certificate of Coverage was issued or delivered by an agent or broker, please contact your agent or broker for assistance.

You also can contact the California Department of Insurance. However, the California Department of Insurance should be contacted only after discussions with the Insurance Company or its agent or other representative, or both, have failed to produce a satisfactory resolution to the problem.

Department of Insurance  
Consumer Communications Bureau  
300 South Spring Street - South Tower  
Los Angeles, California 90013  
Toll Free Hotline Telephone Number: 1-800-927-4357  
Local Telephone Number: 213-897-8921  
Fax: 213-736-2562  
Office Hours: 8:00 a.m. - 5:00 p.m.

STATE REQ-1 (7/1/2003)



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**DRAFT \_\_\_\_\_**

This form is for contact information only, and it is not to be considered a condition for the Policy.

STATE REQ-2 (7/1/2003)

**DRAFT \_\_\_\_\_**  
**OTHER SERVICES**

These services are also available from us as part of your Unum Long Term Disability plan.

***IS THERE A WORK LIFE ASSISTANCE PROGRAM AVAILABLE WITH THE PLAN?***

We do provide you and your dependents access to a work life assistance program designed to assist you with problems of daily living.

You can call and request assistance for virtually any personal or professional issue, from helping find a day care or transportation for an elderly parent, to researching possible colleges for a child, to helping to deal with the stress of the workplace. This work life program is available for everyday issues as well as crisis support.

This service is also available to your Employer.

This program can be accessed by a 1-800 telephone number available 24 hours a day, 7 days a week or online through a website.

Information about this program can be obtained through your plan administrator.

***HOW CAN UNUM HELP YOUR EMPLOYER IDENTIFY AND PROVIDE WORKSITE MODIFICATION?***

A worksite modification might be what is needed to allow you to perform the material and substantial duties of your regular occupation with your Employer. One of our designated professionals will assist you and your Employer to identify a modification we agree is likely to help you remain at work or return to work. This agreement will be in writing and must be signed by you, your Employer and Unum.

When this occurs, Unum will reimburse your Employer for the cost of the modification, up to the greater of:

- \$1,000; or
- the equivalent of 2 months of your monthly benefit.

This benefit is available to you on a one time only basis.

***HOW CAN UNUM'S REHABILITATION SERVICE HELP YOU RETURN TO WORK?***

Unum has a vocational rehabilitation program available to assist you to return to work. This program is offered as a service, and is voluntary on your part and on Unum's part.

In addition to referrals made to the rehabilitation program by our claims paying personnel, you may request to have your claim file reviewed by one of Unum's rehabilitation professionals. As your file is reviewed, medical and vocational information will be analyzed to determine if rehabilitation services might help you return to gainful employment.

Once the initial review is completed, Unum may elect to offer you a return-to-work program. The return-to-work program may include, but is not limited to, the following services:

- coordination with your Employer to assist you to return to work;

SERVICES-1 (7/1/2003)

- evaluation of adaptive equipment to allow you to return to work;
- vocational evaluation to determine how your disability may impact your employment options;
- job placement services;
- resume preparation;
- job seeking skills training; or
- retraining for a new occupation.

**HOW CAN UNUM'S SOCIAL SECURITY CLAIMANT ADVOCACY PROGRAM ASSIST YOU WITH OBTAINING SOCIAL SECURITY DISABILITY BENEFITS?**

In order to be eligible for assistance from Unum's Social Security claimant advocacy program, you must be receiving monthly payments from us. Unum can provide expert advice regarding your claim and assist you with your application or appeal.

Receiving Social Security benefits may enable:

- you to receive Medicare after 24 months of disability payments;
- you to protect your retirement benefits; and
- your family to be eligible for Social Security benefits.

We can assist you in obtaining Social Security disability benefits by:

- helping you find appropriate legal representation;
- obtaining medical and vocational evidence; and
- reimbursing pre-approved case management expenses.

**Additional Summary Plan Description Information**

**Name of Plan:**

Northrop Grumman Corporation Group Benefits Plan; sponsor Northrop Grumman Corporation

**Name and Address of Employer:**

Northrop Grumman Corporation  
1840 Century Park East  
CC-3, Dept. 161  
Los Angeles, California  
90067-2199

**Plan Identification Number:**

- a. Employer IRS Identification #: 95-4840775
- b. Plan #: 501

**Type of Welfare Plan:**

Disability

**Type of Administration:**

The Plan is administered by the Plan Administrator. Benefits are administered by the insurer and provided in accordance with the insurance policy issued to the Plan.

**ERISA Plan Year Ends:**

December 31

**Plan Administrator, Name, Address, and Telephone Number:**

Northrop Grumman Corporation  
1840 Century Park East  
CC-3, Dept. 161  
Los Angeles, California  
90067-2199  
(310) 201-3076

Northrop Grumman Corporation is the Plan Administrator and named fiduciary of the Plan, with authority to delegate its duties. The Plan Administrator may designate Trustees of the Plan, in which case the Administrator will advise you separately of the name, title and address of each Trustee.

**Agent for Service of Legal Process on the Plan:**

Northrop Grumman Corporation  
1840 Century Park East  
CC-3, Dept. 161  
Los Angeles, California  
90067-2199

Service of legal process may also be made upon the Plan Administrator, and any Trustee of the Plan.

**Funding and Contributions:**

The Plan is funded as an insured plan under policy number 587628 001, issued by Unum Life Insurance Company of America, 2211 Congress Street, Portland, Maine 04122. Contributions to the Plan are made as stated under “WHO PAYS FOR THE COVERAGE” in the Certificate of Coverage.

**EMPLOYER’S RIGHT TO AMEND THE PLAN**

The Employer reserves the right, in its sole and absolute discretion, to amend, modify, or terminate, in whole or in part, any or all of the provisions of this Plan (including any related documents and underlying policies), at any time and for any reason or no reason. Any amendment, modification, or termination must be in writing and endorsed on or attached to the Plan.

**EMPLOYER’S RIGHT TO REQUEST POLICY CHANGE**

The Employer can request a policy change. Only an officer or registrar of Unum can approve a change. The change must be in writing and endorsed on or attached to the policy.

**CANCELLING THE POLICY OR A PLAN UNDER THE POLICY**

The policy or a plan under the policy can be cancelled:

- by Unum; or
- by the Policyholder.

Unum may cancel or offer to modify the policy or a plan if:

- there is less than 75% participation of those eligible employees who pay all or part of their premium for a plan; or
- there is less than 100% participation of those eligible employees for a Policyholder paid plan;
- the Policyholder does not promptly provide Unum with information that is reasonably required;
- the Policyholder fails to perform any of its obligations that relate to the policy;
- fewer than 10 employees are insured under a plan;
- the Policyholder fails to pay any premium within the 60 day grace period.

If Unum cancels the policy or a plan for reasons other than the Policyholder’s failure to pay premium, a written notice will be delivered to the Policyholder at least 120 days prior to the cancellation date.

If the premium is not paid during the grace period, the policy or plan will terminate automatically at the end of the grace period. The Policyholder is liable for premium for coverage during the grace period. The Policyholder must pay Unum all premium due for the full period each plan is in force.

The Policyholder may cancel the policy or a plan by written notice delivered to Unum at least 120 days prior to the cancellation date. When both the Policyholder and Unum agree, the policy or a plan can be cancelled on an earlier date. If Unum or the Policyholder cancels the policy or a plan, coverage will end at 12:00 midnight on the last day of coverage.

If the policy or a plan is cancelled, the cancellation will not affect a payable claim.

## HOW TO FILE A CLAIM

If you wish to file a claim for benefits, you should follow the claim procedures described in your group insurance certificate. Unum must receive a completed claim form. The form must be completed by you, your authorized representative, your attending physician and your Employer. If you or your authorized representative has any questions about what to do, you or your authorized representative should contact Unum directly.

## CLAIMS PROCEDURES

Unum will give you notice of the decision no later than 45 days after the claim is filed. This time period may be extended twice by 30 days if Unum both determines that such an extension is necessary due to matters beyond the control of the Plan and notifies you of the circumstances requiring the extension of time and the date by which Unum expects to render a decision. If such an extension is necessary due to your failure to submit the information necessary to decide the claim, the notice of extension will specifically describe the required information, and you will be afforded at least 45 days within which to provide the specified information. If you deliver the requested information within the time specified, any 30 day extension period will begin after you have provided that information. If you fail to deliver the requested information within the time specified, Unum may decide your claim without that information.

If your claim for benefits is wholly or partially denied, the notice of adverse benefit determination under the Plan will:

- state the specific reason(s) for the determination;
- reference specific Plan provision(s) on which the determination is based;
- describe additional material or information necessary to complete the claim and why such information is necessary;
- describe Plan procedures and time limits for appealing the determination, and your right to obtain information about those procedures and the right to sue in federal court; and
- disclose any internal rule, guidelines, protocol or similar criterion relied on in making the adverse determination (or state that such information will be provided free of charge upon request).

Notice of the determination may be provided in written or electronic form. Electronic notices will be provided in a form that complies with any applicable legal requirements.

**APPEAL PROCEDURES**

You have 180 days from the receipt of notice of an adverse benefit determination to file an appeal. Requests for appeals should be sent to the address specified in the claim denial. A decision on review will be made not later than 45 days following receipt of the written request for review. If Unum determines that special circumstances require an extension of time for a decision on review, the review period may be extended by an additional 45 days (90 days in total). Unum will notify you in writing if an additional 45 day extension is needed.

If an extension is necessary due to your failure to submit the information necessary to decide the appeal, the notice of extension will specifically describe the required information, and you will be afforded at least 45 days to provide the specified information. If you deliver the requested information within the time specified, the 45 day extension of the appeal period will begin after you have provided that information. If you fail to deliver the requested information within the time specified, Unum may decide your appeal without that information.

You will have the opportunity to submit written comments, documents, or other information in support of your appeal. You will have access to all relevant documents as defined by applicable U.S. Department of Labor regulations. The review of the adverse benefit determination will take into account all new information, whether or not presented or available at the initial determination. No deference will be afforded to the initial determination.

The review will be conducted by Unum and will be made by a person different from the person who made the initial determination and such person will not be the original decision maker's subordinate. In the case of a claim denied on the grounds of a medical judgment, Unum will consult with a health professional with appropriate training and experience. The health care professional who is consulted on appeal will not be the individual who was consulted during the initial determination or a subordinate. If the advice of a medical or vocational expert was obtained by the Plan in connection with the denial of your claim, Unum will provide you with the names of each such expert, regardless of whether the advice was relied upon.

A notice that your request on appeal is denied will contain the following information:

- the specific reason(s) for the determination;
- a reference to the specific Plan provision(s) on which the determination is based;
- a statement disclosing any internal rule, guidelines, protocol or similar criterion relied on in making the adverse determination (or a statement that such information will be provided free of charge upon request);
- a statement describing your right to bring a civil suit under federal law;
- the statement that you are entitled to receive upon request, and without charge, reasonable access to or copies of all documents, records or other information relevant to the determination; and
- the statement that "You or your plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency".

Notice of the determination may be provided in written or electronic form. Electronic notices will be provided in a form that complies with any applicable legal requirements.

Unless there are special circumstances, this administrative appeal process must be completed before you begin any legal action regarding your claim.

## **YOUR RIGHTS UNDER ERISA**

As a participant in this Plan you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all Plan participants shall be entitled to:

### Receive Information About Your Plan and Benefits

Examine, without charge, at the Plan Administrator's office and at other specified locations, all documents governing the Plan, including insurance contracts, and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, including insurance contracts, and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

### Prudent Actions by Plan Fiduciaries

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries. No one, including your Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

### Enforce Your Rights

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.



If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that Plan fiduciaries misuse the Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, if, for example, it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about your Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

**DISCRETIONARY ACTS**

In exercising its discretionary powers under the Plan, the Plan Administrator, and any designee (which shall include Unum as a claims fiduciary) will have the broadest discretion permissible under ERISA and any other applicable laws, and its decisions will constitute final review of your claim by the Plan. Benefits under this Plan will be paid only if the Plan Administrator or its designee (including Unum), decides in its discretion that the applicant is entitled to them.

GLOSSARY

**ACTIVE EMPLOYMENT** means you are working for your Employer for earnings that are paid regularly and that you are performing the material and substantial duties of your regular occupation. You must be working at least the minimum number of hours as described under Eligible Group(s) in each plan.

Your work site must be:

- your Employer's usual place of business;
- an alternative work site at the direction of your Employer, including your home; or
- a location to which your job requires you to travel.

Normal vacation is considered active employment.

Temporary and seasonal workers are excluded from coverage.

**DEDUCTIBLE SOURCES OF INCOME** means income from deductible sources listed in the plan which you receive or are entitled to receive while you are disabled. This income will be subtracted from your gross disability payment.

**DISABILITY EARNINGS** means the earnings which you receive while you are disabled and working, plus the earnings you could receive if you were working to your **maximum capacity**.

**DOMESTIC PARTNER** means an adult of the same or opposite sex who has an emotional, physical and financial relationship with you, similar to that of a spouse; as evidenced by the following facts:

- you and your domestic partner share financial responsibility for a joint household and intend to continue an exclusive relationship indefinitely;
- you and your domestic partner each are at least eighteen (18) years of age;
- you and your domestic partner are both mentally competent to enter into a binding contract;
- you and your domestic partner share a residence and have done so for at least 12 months;
- neither you nor your domestic partner are married to, or legally separated from anyone else;
- you and your domestic partner are not related to one another by blood closer than would bar marriage; and
- neither you nor your domestic partner is a domestic partner of anyone else.

**ELIGIBLE SURVIVOR** means your spouse or domestic partner if living; otherwise your children under age 25.

**ELIMINATION PERIOD** means a period of continuous disability which must be satisfied before you are eligible to receive benefits from Unum.

**EMPLOYEE** means a citizen or permanent resident of the United States or Canada who is in active employment in the United States with the Employer unless an exception is applied for and approved in writing by Unum.

**EMPLOYER** means the Policyholder, and includes any division, subsidiary or affiliated company named in the policy.

**GAINFUL OCCUPATION** means an occupation that is or can be expected to provide you with an income at least equal to 60% of your indexed monthly earnings within 12 months of your return to work.

**GRACE PERIOD** means the period of time following the premium due date during which premium payment may be made.

**GROSS DISABILITY PAYMENT** means the benefit amount before Unum subtracts deductible sources of income and disability earnings.

**HOSPITAL OR INSTITUTION** means an accredited facility licensed to provide care and treatment for the condition causing your disability.

**INDEXED MONTHLY EARNINGS** means your monthly earnings adjusted on each anniversary of benefit payments by the lesser of 10% or the current annual percentage increase in the Consumer Price Index. Your indexed monthly earnings may increase or remain the same, but will never decrease.

The Consumer Price Index (CPI-W) is published by the U.S. Department of Labor. Unum reserves the right to use some other similar measurement if the Department of Labor changes or stops publishing the CPI-W.

Indexing is only used to determine your percentage of lost earnings while you are disabled and working.

**INJURY** means a bodily injury that is the direct result of an accident and not related to any other cause. Disability must begin while you are covered under the plan.

**INSURED** means any person covered under a plan.

**LAW, PLAN OR ACT** means the original enactments of the law, plan or act and all amendments.

**LEAVE OF ABSENCE** means you are temporarily absent from active employment for a period of time that has been agreed to in advance in writing by your Employer.

Your normal vacation time or any period of disability is not considered a leave of absence.

**LIMITED** means what you cannot or are unable to do.

**MATERIAL AND SUBSTANTIAL DUTIES** means duties that:

- are normally required for the performance of your regular occupation; and
- cannot be reasonably omitted or modified.

**MAXIMUM CAPACITY** means, based on your restrictions and limitations:

- during the first 24 months of disability, the greatest extent of work you are able to do in your regular occupation, that is reasonably available.
- beyond 24 months of disability, the greatest extent of work you are able to do in any occupation, that is reasonably available, for which you are reasonably fitted by education, training or experience.

**MAXIMUM PERIOD OF PAYMENT** means the longest period of time Unum will make payments to you for any one period of disability.

**MENTAL ILLNESS** means a psychiatric or psychological condition regardless of cause such as schizophrenia, depression, manic depressive or bipolar illness, anxiety, personality disorders and/or adjustment disorders or other conditions. These conditions are usually treated by a mental health provider or other qualified provider using psychotherapy, psychotropic drugs, or other similar methods of treatment.

**MONTHLY BENEFIT** means the total benefit amount for which an employee is insured under this plan subject to the maximum benefit.

**MONTHLY EARNINGS** means your gross monthly income from your Employer as defined in the plan.

**MONTHLY PAYMENT** means your payment after any deductible sources of income have been subtracted from your gross disability payment.

**PART-TIME BASIS** means the ability to work and earn 20% or more of your indexed monthly earnings.

**PAYABLE CLAIM** means a claim for which Unum is liable under the terms of the policy.

**PHYSICIAN** means:

- a person performing tasks that are within the limits of his or her medical license; and
- a person who is licensed to practice medicine and prescribe and administer drugs or to perform surgery; or
- a person with a doctoral degree in Psychology (Ph.D. or Psy.D.) whose primary practice is treating patients; or
- a person who is a legally qualified medical practitioner according to the laws and regulations of the governing jurisdiction.

Unum will not recognize you, or your spouse, children, parents or siblings as a physician for a claim that you send to us.

**PLAN** means a line of coverage under the policy.

**POLICYHOLDER** means the Employer to whom the policy is issued.

**PRE-EXISTING CONDITION** means a condition for which you received medical treatment, consultation, care or services including diagnostic measures, or took prescribed drugs or medicines for your condition during the given period of time as stated in the plan.

**RECURRENT DISABILITY** means a disability which is:

- caused by a worsening in your condition; and
- due to the same cause(s) as your prior disability for which Unum made a Long Term Disability payment.

**REGULAR CARE** means:

- you personally visit a physician as frequently as is medically required, according to generally accepted medical standards, to effectively manage and treat your disabling condition(s); and
- you are receiving the most appropriate treatment and care which conforms with generally accepted medical standards, for your disabling condition(s) by a physician whose specialty or experience is the most appropriate for your disabling condition(s), according to generally accepted medical standards.

**REGULAR OCCUPATION** means the occupation you are routinely performing when your disability begins. Unum will look at your occupation as it is normally performed in the national economy, instead of how the work tasks are performed for a specific employer or at a specific location.

**RETIREMENT PLAN** means a defined contribution plan or defined benefit plan. These are plans which provide retirement benefits to employees and are not funded entirely by employee contributions. Retirement Plan includes but is not limited to any plan which is part of any federal, state, county, municipal or association retirement system.

**SALARY CONTINUATION OR ACCUMULATED SICK LEAVE** means continued payments to you by your Employer of all or part of your monthly earnings, after you become disabled as defined by the Policy. This continued payment must be part of an established plan maintained by your Employer for the benefit of all employees covered under the Policy. Salary continuation or accumulated sick leave does not include compensation paid to you by your Employer for work you actually perform after your disability begins. Such compensation is considered disability earnings, and would be taken into account in calculating your monthly payment.

**SICKNESS** means an illness or disease. Disability must begin while you are covered under the plan.

**SURVIVOR, ELIGIBLE** means your spouse, if living; otherwise your children under age 25 equally.

**TOTAL COVERED PAYROLL** means the total amount of monthly earnings for which employees are insured under this plan.

**WAITING PERIOD** means the continuous period of time (shown in each plan) that you must be in active employment in an eligible group before you are eligible for coverage under a plan.

**WE, US** and **OUR** means Unum Life Insurance Company of America.

**YOU** means an employee who is eligible for Unum coverage.

## UnumProvident's Commitment to Privacy

UnumProvident understands your privacy is important. We value our relationship with you and are committed to protecting the confidentiality of nonpublic personal information (NPI). This notice explains why we collect NPI, what we do with NPI and how we protect your privacy.

### Collecting Information

We collect NPI about our customers to provide them with insurance products and services. This may include telephone number, address, date of birth, occupation, income and health history. We may receive NPI from your applications and forms, medical providers, other insurers, employers, insurance support organizations, and service providers.

### Sharing Information

We share the types of NPI described above primarily with people who perform insurance, business, and professional services for us, such as helping us pay claims and detect fraud. We may share NPI with medical providers for insurance and treatment purposes. We may share NPI with an insurance support organization. The organization may retain the NPI and disclose it to others for whom it performs services. In certain cases, we may share NPI with group policyholders for reporting and auditing purposes. We may share NPI with parties to a proposed or final sale of insurance business or for study purposes. We may also share NPI when otherwise required or permitted by law, such as sharing with governmental or other legal authorities. *When legally necessary, we ask your permission before sharing NPI about you.* Our practices apply to our former, current and future customers.

*Please be assured we do not share your health NPI to market any product or service.* We also do not share any NPI to market non-financial products and services. For example, we do not sell your name to catalog companies.

The law allows us to share NPI as described above (except health information) with affiliates to market financial products and services. The law does not allow you to restrict these disclosures. We may also share with companies that help us market our insurance products and services, such as vendors that provide mailing services to us. We may share with other financial institutions to jointly market financial products and services. *When required by law, we ask your permission before we share NPI for marketing purposes.*

When other companies help us conduct business, we expect them to follow applicable privacy laws. We do not authorize them to use or share NPI except when necessary to conduct the work they are performing for us or to meet regulatory or other governmental requirements.

UnumProvident companies, including insurers and insurance service providers, may share NPI about you with each other. The NPI might not be directly related to our transaction or experience with you. It may include financial or other personal information such as employment history. Consistent with the Fair Credit Reporting Act, we ask your permission before sharing NPI that is not directly related to our transaction or experience with you.

### **Safeguarding Information**

We have physical, electronic and procedural safeguards that protect the confidentiality and security of NPI. We give access only to employees who need to know the NPI to provide insurance products or services to you.

### **Access to Information**

You may request access to certain NPI we collect to provide you with insurance products and services. You must make your request in writing and send it to the address below. The letter should include your full name, address, telephone number and policy number if we have issued a policy. If you request, we will send copies of the NPI to you. If the NPI includes health information, we may provide the health information to you through a health care provider you designate. We will also send you information related to disclosures. We may charge a reasonable fee to cover our copying costs.

This section applies to NPI we collect to provide you with coverage. It does not apply to NPI we collect in anticipation of a claim or civil or criminal proceeding.

### **Correction of Information**

If you believe NPI we have about you is incorrect, please write to us. Your letter should include your full name, address, telephone number and policy number if we have issued a policy. Your letter should also explain why you believe the NPI is inaccurate. If we agree with you, we will correct the NPI and notify you of the correction. We will also notify any person who may have received the incorrect NPI from us in the past two years if you ask us to contact that person.

If we disagree with you, we will tell you we are not going to make the correction. We will give you the reason(s) for our refusal. We will also tell you that you may submit a statement to us. Your statement should include the NPI you believe is correct. It should also include the reason(s) why you disagree with our decision not to correct the NPI in our files. We will file your statement with the disputed NPI. We will include your statement any time we disclose the disputed NPI. We will also give the statement to any person designated by you if we may have disclosed the disputed NPI to that person in the past two years.

### **Coverage Decisions**

If we decide not to issue coverage to you, we will provide you with the specific reason(s) for our decision. We will also tell you how to access and correct certain NPI.

### **Contacting Us**

For additional information about UnumProvident's commitment to privacy, please visit [www.unumprovident.com/privacy](http://www.unumprovident.com/privacy) or [www.coloniallife.com](http://www.coloniallife.com) or write to: Privacy Officer, UnumProvident Corporation, 2211 Congress Street, M347, Portland, Maine 04122. We reserve the right to modify this notice. We will provide you with a new notice if we make material changes to our privacy practices.

*UnumProvident Corporation is providing this notice to you on behalf of the following insuring companies: Unum Life Insurance Company of America, First Unum Life Insurance Company, Provident Life and Accident Insurance Company, Provident Life and Casualty Insurance Company, Colonial Life & Accident*

**DRAFT \_\_\_\_\_**

*Insurance Company, The Paul Revere Life Insurance Company and The Paul Revere Variable Annuity Insurance Company.*

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GLB-3 (7/1/2003)



[LOGO APPEARS HERE]

Pacific Life Insurance Company

§ 700 Newport Center Drive

§ Newport Beach, CA 92660

**FLEXIBLE  
PREMIUM  
ADJUSTABLE LIFE  
INSURANCE  
POLICY**

We, Pacific Life Insurance Company, agree with you, the Owner, to pay the benefits of this policy according to its provisions.

**Right To Cancel Policy Within 20 Days – You may return this policy within 20 days after you receive it. To do so, deliver or mail it to us or our agent. We will then cancel this policy as of the policy date and refund any premium paid.**

Signed at our Home Office, 700 Newport Center Drive, Newport Beach, California 92660

SIGNATURE APPEARS HERE

SIGNATURE APPEARS HERE

§ Flexible Premiums Payable to Age 95

§ Adjustable Face Amount

§ Participating

FORM: 92-45

Chairman and Chief Executive Officer

Secretary

This is not an original contract, but merely evidences the terms and conditions, effective as of 2/9/2005 of the original policy of the same number which has been lost mutilated or accidentally destroyed.

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**IMPORTANT NOTICE**

WE ARE REQUIRED BY STATE LAW TO PROVIDE YOU WITH THE FOLLOWING INFORMATION.

AT PACIFIC LIFE, WE ALWAYS STRIVE TO PROVIDE OUR POLICYOWNERS WITH THE BEST PRODUCTS AND SERVICES. SHOULD YOU HAVE A PROBLEM, YOUR LOCAL AGENT AND AGENCY WILL BE GLAD TO HELP YOU.

HOWEVER, YOU MAY ALSO CONTACT THE CALIFORNIA DEPARTMENT OF INSURANCE IF THE CONTACTS BETWEEN YOU AND OUR COMPANY OR OUR AGENT HAVE FAILED TO PRODUCE A SATISFACTORY SOLUTION TO THE PROBLEM.

**PACIFIC LIFE CUSTOMER SERVICE  
700 NEWPORT CENTER DRIVE  
NEWPORT BEACH, CA 92660**

**(800) 800-7681**

**OR**

**CALIFORNIA DEPARTMENT OF INSURANCE  
CONSUMER AFFAIRS DIVISION  
300 SOUTH SPRING STREET  
SOUTH TOWER  
LOS ANGELES, CA 90013**

**CALIFORNIA ONLY (800) 927-HELP  
OUTSIDE CALIFORNIA: (213) 736-3582**

**POLICY SPECIFICATIONS**

PREMIUMS: PLANNED ANNUAL PREMIUM = \$31,083.00

INTEREST: IN ADDITION TO GUARANTEED INTEREST DESCRIBED IN THE INTEREST PROVISION OF THIS POLICY, WE MAY CREDIT EXCESS INTEREST ON THE UNLOANED PORTION OF THE ACCUMULATED VALUE. THIS EXCESS INTEREST WILL BE GUARANTEED FOR THE FIRST POLICY YEAR SUCH THAT, TOGETHER WITH GUARANTEED INTEREST, THE INTEREST RATE ON THE UNLOANED PORTION OF THE ACCUMULATED VALUE WILL BE .506483% PER MONTH WHICH IS EQUIVALENT TO 6.25% ANNUALLY.

DEATH BENEFIT QUALIFICATION TEST: CASH VALUE ACCUMULATION TEST (THIS ELECTION IS IRREVOCABLE FOR LIFE OF THE CONTRACT.)

OWNER: LITTON INDUSTRIES INC

BENEFICIARY: AS STATED ON THE APPLICATION UNLESS SUBSEQUENTLY CHANGED.

This is not an original contract, but merely evidences the terms and conditions, effective as of 2/9/2005 of the original policy of the same number which has been lost mutilated or accidentally destroyed.

BASIC POLICY: FLEXIBLE PREMIUM ADJUSTABLE LIFE

POLICY NUMBER: 1A23867640 INSURED'S NAME: RONALD D SUGAR

FIRST YEAR TOTAL COVERAGE: \$2,406,083.00 RISK CLASSIFICATION: MALE NONSMOKER

POLICY DATE: JUN 01, 2000 AGE ON POLICY DATE: 52

MATURITY DATE: JUN 01, 2043 NOTE: THIS POLICY MAY NOT REMAIN IN FORCE TO THE INDICATED MATURITY DATE IF THE PAYMENTS ARE INSUFFICIENT TO MAINTAIN THE CASH VALUE UNTIL THAT DATE.

MONTHLY PAYMENT DATE IS THE 1ST DAY OF THE MONTH.

**POLICY SPECIFICATIONS****SUMMARY OF COVERAGES EFFECTIVE ON THE POLICY DATE**

92-45: BASIC COVERAGE GUARANTEED ISSUE  
 FACE AMOUNT: \$481,217.00 INITIAL SURRENDER CHARGE : \$2,011.49  
 RISK CLASSIFICATION: MALE NONSMOKER

SEE POLICY PAGE 10 FOR ADDITIONAL DETAILS REGARDING THE SURRENDER CHARGE.

ADMINISTRATIVE  
 CHARGE:

\$6.00 PER MONTH

INSURANCE  
 CHARGE:

AN AMOUNT PER \$1000 OF FACE AMOUNT WILL BE DEDUCTED FROM THE ACCUMULATED VALUE EACH MONTH FOR THE FIRST 60 POLICY MONTHS ACCORDING TO THE FOLLOWING SCHEDULE:

<u>POLICY MONTH</u>	<u>AMOUNT PER \$1,000 OF FACE</u>
1 – 15	\$0.38
16 – 30	\$0.64
31 – 45	\$0.90
46 – 60	\$1.16

R90-APB2: ADDED PROTECTION BENEFIT GUARANTEED ISSUE

TARGET AMOUNT: \$1,924,866.00 VARYING  
 SEE ATTACHED SCHEDULE

AGE AT ISSUE: 52

RISK CLASSIFICATION: MALE NONSMOKER

COVERAGE CEASE DATE: JUN 01, 2043

PERSON COVERED: RONALD D SUGAR

R86-E1: EXCHANGE OF INSURED RIDER

**POLICY SPECIFICATIONS (CONT'D)**  
**SUMMARY OF COVERAGES EFFECTIVE ON THE POLICY DATE**  
**ADDED PROTECTION BENEFIT**  
**VARYING SCHEDULE**  
**AGE AT ISSUE: 52**

**RISK CLASSIFICATION: MALE      NONSMOKER**

**COVERAGE CEASE DATE: JUN 1, 2043**

**PERSON COVERED: RONALD D SUGAR**

<u>ATTAINED AGE</u>	<u>TARGET AMOUNT</u>	<u>ATTAINED AGE</u>	<u>TARGET AMOUNT</u>
52	\$ 1,924,866.00	90	\$ 47,862.00
53	\$ 2,075,949.00	91	\$ 47,862.00
54	\$ 2,233,032.00	92	\$ 47,862.00
55	\$ 2,397,115.00	93	\$ 47,862.00
56	\$ 2,567,198.00	94	\$ 47,862.00
57	\$ 2,744,281.00		
58	\$ 2,928,364.00		
59	\$ 3,120,447.00		
60	\$ 3,319,530.00		
61	\$ 3,528,613.00		
62	\$ 3,745,696.00		
63	\$ 3,971,779.00		
64	\$ 4,208,863.00		
65	\$ 1,025,862.00		
66	\$ 1,025,862.00		
67	\$ 1,025,862.00		
68	\$ 1,025,862.00		
69	\$ 1,025,862.00		
70	\$ 47,862.00		
71	\$ 47,862.00		
72	\$ 47,862.00		
73	\$ 47,862.00		
74	\$ 47,862.00		
75	\$ 47,862.00		
76	\$ 47,862.00		
77	\$ 47,862.00		
78	\$ 47,862.00		
79	\$ 47,862.00		
80	\$ 47,862.00		
81	\$ 47,862.00		
82	\$ 47,862.00		
83	\$ 47,862.00		
84	\$ 47,862.00		
85	\$ 47,862.00		
86	\$ 47,862.00		
87	\$ 47,862.00		
88	\$ 47,862.00		
89	\$ 47,862.00		

## POLICY SPECIFICATIONS

## TABLE OF COST OF INSURANCE RATES

GUARANTEED MAXIMUM MONTHLY COST OF INSURANCE RATES PER \$1.00 APPLICABLE TO BASIC POLICY COVERING THE INSURED.

<u>AGE</u>	<u>MONTHLY CHARGE</u>	<u>AGE</u>	<u>MONTHLY CHARGE</u>
52	0.00066576		
53	0.00072874		
54	0.00080017		
55	0.00087671		
56	0.00096005		
57	0.00104684		
58	0.00113961		
59	0.00123924		
60	0.00134997		
61	0.00147355		
62	0.00161340		
63	0.00177217		
64	0.00194909		
65	0.00214342		
66	0.00235099		
67	0.00257276		
68	0.00280882		
69	0.00306532		
70	0.00335367		
71	0.00368198		
72	0.00406029		
73	0.00449620		
74	0.00498351		
75	0.00551331		
76	0.00607652		
77	0.00666569		
78	0.00727588		
79	0.00792387		
80	0.00863520		
81	0.00943077		
82	0.01033895		
83	0.01137349		
84	0.01251384		
85	0.01373772		
86	0.01502184		
87	0.01635661		
88	0.01773798		
89	0.01917198		
90	0.02067765		
91	0.02228714		
92	0.02406346		
93	0.02611992		
94	0.02881299		

**POLICY SPECIFICATIONS**  
**TABLE OF COST OF INSURANCE RATES**

**GUARANTEED MAXIMUM MONTHLY COST OF INSURANCE RATES PER \$1.00 APPLICABLE TO THE ADDED PROTECTION BENEFIT  
COVERING RONALD D SUGAR**

<u>AGE</u>	<u>MONTHLY CHARGE</u>	<u>AGE</u>	<u>MONTHLY CHARGE</u>
52	0.00066576		
53	0.00072874		
54	0.00080017		
55	0.00087671		
56	0.00096005		
57	0.00104684		
58	0.00113961		
59	0.00123924		
60	0.00134997		
61	0.00147355		
62	0.00161340		
63	0.00177217		
64	0.00194909		
65	0.00214342		
66	0.00235099		
67	0.00257276		
68	0.00280882		
69	0.00306532		
70	0.00335367		
71	0.00368198		
72	0.00406029		
73	0.00449620		
74	0.00498351		
75	0.00551331		
76	0.00607652		
77	0.00666569		
78	0.00727588		
79	0.00792387		
80	0.00863520		
81	0.00943077		
82	0.01033895		
83	0.01137349		
84	0.01251384		
85	0.01373772		
86	0.01502184		
87	0.01635661		
88	0.01773798		
89	0.01917198		
90	0.02067765		
91	0.02228714		
92	0.02406346		
93	0.02611992		
94	0.02881299		

**Company** or **PL** or **we** or **us** refers to Pacific Life Insurance Company.

**Monthly payment date** is the day each month on which Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges, and Benefit Charges, if any, are deducted from the Accumulated Value. This day is shown on page 3. The first monthly payment date is the Policy Date.

**Home Office** means the Company's office located at 700 Newport Center Drive, Newport Beach, California 92660.

**You, your** or **owner** refers to the owner of this policy.

**Policy Date** is shown on page 3. Policy months, years and anniversaries are measured from this date.

**Age** means age nearest birthday as of the policy date, increased by the number of complete policy years elapsed. With respect to any increases in face amount, riders, or other policy benefits which have an effective date not falling on a policy date anniversary, "age" means age nearest birthday as of the effective date increased by the number of complete years elapsed since the effective date.

**Evidence of Insurability** is information, including medical information, satisfactory to the Company that is used to determine the insured's class of risk.

**Debt** means all unpaid policy loans plus accrued interest on such loans.

**Written request** is a request in writing satisfactory to PL and filed at its Home Office.

**Maturity date** is the policy anniversary nearest the insured's 95th birthday.

### **Premiums**

**Premiums** – This policy will not be in force until the first premium is paid. No premium may be less than \$25. Premiums may be paid at any time prior to the maturity date while this policy is in force either at the Home Office of the Company or to an agent of the Company, subject to the premium limitations and the Reinstatement provision shown below. On written request we will give you a premium receipt signed by a Company officer.

We reserve the right to require evidence of insurability, satisfactory to us, for any premium payment that would result in an immediate increase in the difference between the death benefit and the Accumulated Value. If satisfactory evidence of insurability is not provided before such premium is paid, we reserve the right to refund the premium.

**Premium Limitation** – This section applies only to policies where the Guideline Premium Test has been elected as the Death Benefit Qualification method. In order for this policy to be treated as life insurance under the Internal Revenue Code, the sum of the premiums paid less any dividends paid in cash and less any partial withdrawals may not exceed the greater of:

- § the Guideline Single Premium; or
- § the sum of the Guideline Level Premiums to the date of payment.

The amounts of the Guideline Premiums are shown in the Policy Specifications pages. The Guideline Premiums will change whenever there is a change in the face amount of insurance or in other policy benefits. Such change will be shown in the supplemental schedule of coverage. This premium limitation does not apply to payment of a premium necessary to prevent lapse of the policy.

The Guideline Premiums are determined according to the rules applicable to this policy set forth in the Internal Revenue Code. The Guideline Premiums will be adjusted to conform to any changes in the Internal Revenue Code.



In the event that a premium payment would exceed these limits, the Company reserves the right to refund the excess payment with interest to the owner.

**Grace Period and Lapse** – The Company will determine on each monthly payment date if a premium payment will be necessary as of the next monthly payment date to keep the policy in force. A premium will be due on the next monthly payment date if, at that time, the Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges, Benefit Charges and loan interest accrued to the end of the next month are greater than the Accumulated Value less debt.

At such time as we determine that a premium is due, a notice will be sent to your last known address and to the last known address of any assignee. The notice will state the due date and the amount of premium required to keep the policy in force. If this premium is not paid by its due date, the policy will be in default. The premium may be paid during a grace period of 61 days beginning on the premium due date. The policy will remain in force during this grace period. A lapse occurs if the amount shown in the notice remains unpaid at the end of the grace period. Upon lapse, the policy terminates and no coverage is in force. We will send you written notice of lapse at your last known address at least 30 days prior to termination of coverage.

**Reinstatement** – If it has not been surrendered, this policy may be reinstated not more than five years after the date of premium default. To reinstate the policy you must provide us with:

- § evidence of insurability satisfactory to us; and
- § payment of a premium sufficient to continue the policy in force for the two-month period following the next monthly payment date.

You may pay or reinstate any debt outstanding on the date of default. Any loan paid or reinstated will cause an increase in Accumulated Value of an equal amount to also be reinstated. The reinstatement will become effective at such time as the two conditions have been met.

### **Policy Benefits**

**Death Proceeds** – When we receive proof that the insured's death occurred while this policy was in force, we will pay the death benefit under either the Cash Value Accumulation Test or the Guideline Premium Test as elected by you and shown in the Policy Specifications pages. These tests are described below. Any debt, Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges and Benefit Charges due and unpaid through the policy month in which the insured dies will be deducted from the death proceeds. We will also pay interest on the resulting amount from the date of death to the date of payment at a rate not less than the guaranteed rate or the legal rate required by the state in which this policy is issued, if higher.

### **Death Benefit Qualification**

The owner elects the method for Death Benefit Qualification in the application. Once elected, this method **may not** be changed for the life of the contract. The owner must choose one of the following methods:

1. **Cash Value Accumulation Test** – The death benefit will be the greater of the face amount or the amount required for this policy to be deemed life insurance according to the Internal Revenue Code. Such required amount will be determined based on the Accumulated Value (defined on Page 8) and the Cash Value Accumulation Test defined in the Internal Revenue Code Section 7702(b). We reserve the right to amend this policy to comply with future regulations or changes in the Internal Revenue Code. We will provide you with a copy of any such amendment.
2. **Guideline Premium Test** – The death benefit will be determined as described below under the Guideline Premium Test Death Benefit Options and the Guideline Minimum Death Benefit provisions.

**Guideline Premium Test Death Benefit Options** There are two Death Benefit Options available. The owner elects Option A or Option B in the application. If no option is elected, Option A is the automatic option.

**Option A** – The death benefit is the greater of:

- § the face amount; or
- § the Guideline Minimum Death Benefit.

**Option B** – The death benefit is the greater of:

- § the face amount plus the Accumulated Value on the date of death; or
- § the Guideline Minimum Death Benefit.

The Death Benefit Option may be changed on written request. After any such change, the face amount will be that amount which results in the death benefit after the change being equal to the death benefit before the change. The Death Benefit Option may not be changed more than once in any policy year.

**Guideline Minimum Death Benefit** – The Guideline Minimum Death Benefit is the product of the Accumulated Value and the Death Benefit Factor shown below for the then current age of the insured:

<u>Age</u>	<u>Factor</u>	<u>Age</u>	<u>Factor</u>
0-40	2.50	60	1.30
41	2.43	61	1.28
42	2.36	62	1.26
43	2.29	63	1.24
44	2.22	64	1.22
45	2.15	65	1.20
46	2.09	66	1.19
47	2.03	67	1.18
48	1.97	68	1.17
49	1.91	69	1.16
50	1.85	70	1.15
51	1.78	71	1.13
52	1.71	72	1.11
53	1.64	73	1.09
54	1.57	74	1.07
55	1.50	75-90	1.05
56	1.46	91	1.04
57	1.42	92	1.03
58	1.38	93	1.02
59	1.34	94	1.01

**Benefit Change Provision** – Subject to PL’s approval, the owner may change the face amount of insurance if such request is made:

- § during the lifetime of the insured;
- § after the first policy year if the change is an increase;
- § after the fifth policy year following the later of the policy date or the most recent increase in face amount, if the change is a decrease;
- § no more often than once in any policy year; and
- § on written request while this policy is in force.

**Increase** – The following must occur before the effective date of any increase in the face amount:

- § evidence of insurability satisfactory to us must be provided to the Company;
- § consent of the insured, if the owner is not the insured.

The effective date of the increased face amount will be the first monthly payment date on or following the date all the conditions are met. A supplemental schedule of coverage will be issued. This schedule will include the following information for the additional face amount of insurance:

- § the effective date of the increased face amount;
  - § the amount of the increase in the face amount;
  - § the class of risk;
  - § the monthly Insurance Charge;
  - § the surrender charge; and
  - § the new Guideline Premiums.
- § An increase in the face amount will be allowed only if it results in a death benefit increase of at least \$10,000.

An administrative charge of \$100 will be deducted from the Accumulated Value on the effective date of the increase.

**Decrease** – A request to decrease the face amount will be effective on the monthly payment date following the date of the written request. Existing insurance will be decreased or eliminated in the following order:

- § first, the most recent increase;
- § second, the next most recent increases successively; and
- § finally, the original face amount.

A supplemental schedule of coverage will be issued. This schedule will include the following information:

- § the effective date of the decrease in the face amount;
- § the amount of the decrease in the face amount and the benefit remaining in force; and
- § the new Guideline Premiums.

The face amount of this policy may not be reduced to less than \$10,000. Any decrease in the face amount must result in a death benefit decrease of not less than \$10,000.

A decrease in the face amount will not be allowed if such decrease causes the Guideline Level Premium to become negative.

#### **Accumulated Value**

**Accumulated Value** – The Accumulated Value on the policy date is 90.25% of the first premium minus the Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges, and Benefit Charges, if any, for the first policy month.

The Accumulated Value on each subsequent monthly payment date is:

- § the Accumulated Value on the last monthly payment date increased by one month's interest on such amount;
- § plus, not less than 90.25% of any premiums paid since the last monthly payment date increased by interest on such amount from the date the payment was received at the Home Office;
- § plus any Dividend credited;
- § minus any Mortality Charges;

- § minus any Administrative Charges;
- § minus any Insurance Charges;
- § minus any Rider Charges;
- § minus any Benefit Charges; and
- § minus the amount of any Partial Withdrawal since the last monthly payment date and interest on such amount from the date of withdrawal.

During any policy month the Accumulated Value is:

- § the Accumulated Value on the last monthly payment date increased by interest on such amount from such date;
- § plus, not less than 90.25% of any premiums paid since the last monthly payment date increased by interest on such amount from the date the payment was received at the Home Office;
- § minus the amount of any Partial Withdrawal since the last monthly payment date and interest on such amount from the date of withdrawal.

**Interest** – We will credit interest on the Accumulated Value at a rate not less than the Guaranteed Interest rate of .327374% per month, compounded monthly. This is equivalent to 4% annually. In addition, we may credit excess interest to the portion of the Accumulated Value in excess of existing debt.

This policy will be eligible for additional interest at the end of each of the tenth and twentieth policy years if the policy is then in force. At each time of eligibility, the Accumulated Value will be recalculated by increasing the monthly rates of interest credited to the unloaned portion of the Accumulated Value for each month from the Policy Date to the time of eligibility by the smaller of (1) or (2), where:

- § (1) is 0.25 multiplied by the monthly rate of interest credited to the unloaned portion of the Accumulated Value in excess of the Guaranteed Interest Rate of .327374%; and
- § (2) is .041571%, which is the monthly equivalent of 0.5% annually.

We will not recompute the Dividends, Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges, or Benefit Charges when we recalculate the Accumulated Value. The additional interest credit resulting from the recalculation will be added to the Accumulated Value at the time of eligibility. The eligibility for, and crediting of, additional interest will not be affected by lapse, if followed by reinstatement.

**Mortality Charges** – Beginning on the policy date and monthly thereafter, there will be a deduction from the Accumulated Value equal to the sum of the Mortality Charges applicable to the following:

- § the initial face amount; plus
- § each increase in the face amount.

The monthly Mortality Charge for the death benefit payable under this policy is (1) multiplied by the result of (2) minus (3), where:

- § (1) is the applicable monthly Cost of Insurance Rate;
- § (2) is the death benefit at the beginning of the policy month divided by 1.00327374; and
- § (3) is the Accumulated Value at the beginning of the policy month before deduction of Mortality Charges.

If the Cash Value Accumulation Test or Guideline Premium Test Death Benefit Option A is elected and there have been increases in the face amount, then, for purposes of calculating the Mortality Charges, the Accumulated

Value will be first considered applicable to the initial face amount. If the Accumulated Value exceeds the initial face amount, the excess will then be considered applicable to any additional face amount resulting from increases in the order of the increases.

The Mortality Charges will be adjusted for any decreases in the face amount according to the Benefit Change Provision.

**Cost of Insurance Rates** – The Cost of Insurance Rates are based on the insured’s attained age and risk classification, and the policy duration. The nonguaranteed monthly Cost of Insurance Rates will be determined by the Company. These rates will not exceed the Guaranteed Maximum Monthly Cost of Insurance Rates shown in the Policy Specifications pages. Any change in the Cost of Insurance Rates will apply uniformly for all insureds of the same risk classification on this policy form.

We will use the initial risk classification and the duration measured from the policy date: (i) for the initial face amount if the Cash Value Accumulation Test or Guideline Premium Test Death Benefit. Option A is elected; or (ii) for the initial face amount plus the Accumulated Value if Guideline Premium Test Death Benefit Option B is elected. For each increase in face amount, we will use the risk classification and the duration applicable to the increase.

If the death benefit: (i) equals the Guideline Minimum Death Benefit under the Guideline Premium Test; or (ii) is greater than the face amount under the Cash Value Accumulation Test, then any increase in Accumulated Value will cause an automatic increase in the death benefit. The risk classification and duration for such increase will be the same as that used for the most recent increase in the face amount.

**Administrative Charges** – There will be an Administrative Charge withdrawn from the Accumulated Value on each monthly payment date. The amount of this charge is shown in the Policy Specifications pages. There will also be an Administrative Charge of \$100 withdrawn from the Accumulated Value on the effective date for any increase in the face amount and \$25 for any Partial Withdrawal of Cash Surrender Value.

**Insurance Charges** – There are separate Insurance Charges for the original face amount and each increase in the face amount. These charges are withdrawn monthly from the Accumulated Value, for a period of 60 policy months starting on the Policy Date or the effective date of any increase in the face amount as applicable. Insurance Charges per \$1,000 of initial face amount are shown in the Policy Specifications pages. Insurance Charges for any increase in the face amount are based on the insured’s attained age on the effective date of the increase.

### **Dividends**

**Participating** – At the end of the first and each following year, we will determine your dividend, if any.

If there would have been a dividend payable at the end of the policy year in which the insured dies, we will pay part of that dividend to the beneficiary. The dividend will be for that part of the policy year during which the insured lived.

**Dividend Options** – You may choose one of the following options:

- § (1) Cash. Dividends will be paid in cash; or
- § (2) Increased Accumulated Value. Dividends will be added to the policy’s Accumulated Value on the date of the dividend payment. The Accumulated Value will increase by exactly the amount of the dividend.

You may choose a dividend option within 31 days after a dividend is credited. If you do not choose an option, Option (2) will be in effect until such time as you request a different option. Any option you choose will remain in effect until you change it.

## **Maturity, Surrender and Partial Withdrawal**

**Maturity** – If the insured is living on the maturity date, this policy will then terminate. We will pay to you the Cash Surrender Value as a final settlement.

**Surrender** – Upon written request while the insured is living you may surrender this policy for its Cash Surrender Value. The policy will terminate on the date of the request.

**Cash Surrender Value** – The Cash Surrender Value is the Accumulated Value less the sum of any debt and the applicable surrender charge.

**Partial Withdrawal** – Upon written request and after the first policy year while the insured is living, you may withdraw a portion of the Cash Surrender Value of this policy. A maximum of one withdrawal may be made in each policy year. The amount of each Partial Withdrawal must be not less than \$500 and the Cash Surrender Value remaining after the withdrawal must be at least \$500. The Accumulated Value will be reduced by the amount of the Partial Withdrawal plus an administrative charge of \$25.

A Partial Withdrawal may cause a decrease in the face amount under the Cash Value Accumulation Test or under Guideline Premium Test Death Benefit Option A. During the first 15 policy years, the face amount will be reduced only to the extent that the amount withdrawn exceeds the lesser of \$10,000 or 10% of the Cash Surrender Value. After the 15th anniversary, there will be a decrease in the face amount equal to the Partial Withdrawal amount.

Any decrease in the face amount resulting from a Partial Withdrawal will be subject to the Benefit Change provision of this policy.

**Surrender Charge** – There is a separate Surrender Charge for the original face amount and each increase in the face amount. Surrender Charges begin on the policy date and on the effective date of each increase in the face amount, and reduce each month thereafter by 9.09% until the 12th month. The Surrender Charge for the original face amount is shown on page 4. Surrender Charges for any increase in the face amount are based on the insured's attained age on the effective date of the increase.

**General** – The Company may postpone payment of the Cash Surrender Value for up to six months from the date you apply for it. If payment is postponed for 30 days or more, the Cash Surrender Value will earn interest during the period of postponement at a rate not less than 4% per year. However, we will not postpone payment of the Cash Surrender Value if it is used to pay a premium on any other policy you own that is issued by the Company and is then in force.

You may receive the Cash Surrender Value in a lump sum or you may apply it to purchase income benefits.

If a surrender request is received within 30 days after a policy anniversary, the Surrender Value will not be less than the Cash Surrender Value on such anniversary minus any loans or partial withdrawals made after the anniversary.

**Benefits** – Maturity, surrender or withdrawal benefits may be used to buy a monthly income for the lifetime of the insured. Death benefits may be used to buy a monthly income for the lifetime of the beneficiary. Payments are guaranteed for ten years. If the beneficiary dies before the end of the ten-year period, payments will continue to the end of the ten-year period to a person designated by the beneficiary.

The purchase rates for the monthly income will be set periodically by the Company. However, the income bought by each \$1,000 will always be at least as large as that shown below:

<u>Age</u>	<u>Monthly Income</u>	<u>Age</u>	<u>Monthly Income</u>
30	\$ 3.76	54	\$ 4.73
32	3.81	56	4.87
34	3.86	58	5.04
36	3.91	60	5.22
38	3.97	62	5.42
40	4.03	64	5.65
42	4.10	66	5.91
44	4.18	68	6.19
46	4.27	70	6.50
48	4.37	72	6.85
50	4.48	74	7.22
52	4.59	75	7.41

Monthly income amounts for ages not shown are halfway between the two amounts for the nearest two ages which are shown.

Guaranteed amounts for ages under 30 are the same as those for age 30; guaranteed amounts for ages over 75 are the same as those for age 75. Amounts shown are based on the 1983 Table a with interest at 4% annually.

This benefit is not available if the income would be less than \$100 a month. We may require evidence of survival for incomes which last more than ten years. Optional forms of monthly income benefits are available upon request.

### Policy Loans

**Policy Loans** – Loans may be obtained upon written request to the Company on the sole security of this policy.

**When Available** – Loans are available only if the policy has a loan value available. PL may delay granting a loan for up to six months from the date of the request unless the loan is used to pay a premium on any other policy you own that is issued by the Company and is then in force.

**Amount Available** – A loan may be for any amount up to the loan value. The loan value is the Cash Surrender Value reduced by the following amounts:

- § loan interest accrued to the next policy anniversary; and
- § Mortality Charges, Administrative Charges, Insurance Charges, Rider Charges and Benefit Charges, if any, for not more than 12 months following the loan date.

**Loan Interest** – Interest is payable in arrears at the annual rate of:

- § (i) 5.00% for policy years one through ten;
- § (ii) 4.50% for policy years eleven through twenty; and
- § (iii) 4.25% for policy years twenty-one and after.

Interest not paid when due will be added to the loan principal and bear interest at the same rate of interest.

**Repayment** – Loans may be repaid at any time prior to the lapse of this policy.

All funds received will be credited to this policy as a premium unless clearly marked as a loan repayment.

**Termination** – If the debt exceeds the Accumulated Value less the Surrender Charge of this policy, the policy will terminate with no value unless the excess debt is repaid before the end of the Grace period. We will give you and any assignee on record at our Home Office at least 30 days written notice before we terminate the policy.

#### **Owner and Beneficiary**

**Owner** – The owner of this policy is as shown on page 3 or in a later written change. If there are two or more owners, they will own this contract as joint tenants with right of survivorship unless otherwise stated.

**Assignment** – This policy may be assigned upon written request. An assignment will take place only when recorded at our Home Office. When recorded, the assignment will take effect as of the date the written request was signed. Any rights created by the assignment will be subject to any payments made or actions taken by PL before the change is recorded. PL will not be responsible for the validity of any assignment.

**Beneficiary** – The beneficiary is named by you in the application to receive the death proceeds. The interest of any beneficiary will be subject to any assignment.

A change of beneficiary may be made upon written request on forms provided by PL while the insured is living. The change will take place as of the date the request is signed. Any rights created by the change will be subject to any payments made or actions taken by PL before the written request is received.

The interest of a beneficiary who does not survive to receive payment will pass to the surviving beneficiaries in proportion to their share in the proceeds unless otherwise provided. If no beneficiaries survive to receive payment, the death proceeds will pass to the owner, or the owner's estate if the owner does not survive to receive payment.

#### **General Provisions**

**Entire Contract** – This policy is a contract between the Owner and PL. This policy, the attached copy of the initial application, any applications for reinstatement, all subsequent applications to change the policy and any endorsements, riders or benefits are the entire contract. No statement will be used in defense of a claim unless such statement is contained in the application(s).

All statements contained in the application(s) shall, in the absence of fraud, be deemed representations and not warranties.

Only an authorized officer of PL is permitted to change this contract or waive any of its terms. The change must be made in writing.

**Annual Report** – An annual report will be mailed to you at your last known address. This report will show the following information as of the policy anniversary:

- § the Accumulated Value;
- § the Cash Surrender Value;
- § premiums paid and charges made during the policy year;
- § any dividend earned during the policy year;
- § interest earned during the policy year;



- § existing debt;
- § changes in the Guideline Premiums; and
- § any information required by law.

**Illustrative Report** – An Illustrative Report will be sent to you upon request. This report will show a projection of the future policy value as of the date of the report. Any information required by law will be included. We will charge you a reasonable fee for providing the report, but not more than \$25.

**Incontestability** – Except for failure to pay premiums, this policy cannot be contested by the Company after the expiration of the following time periods:

- § the initial face amount cannot be contested after the policy has been in force during the insured's lifetime for two years from the policy date; and
- § an increase in the face amount cannot be contested after the increased amount has been in force during the insured's lifetime for two years from its effective date.

If this policy has been reinstated, it cannot be contested after it has been in force during the insured's lifetime for two years from the date of reinstatement.

**Suicide Exclusion** – If the insured dies by suicide, while sane or insane, within two years of the policy date, no death benefit will be paid. Instead, we will return the sum of the premiums paid, less the sum of any debt, any dividends paid in cash, and any Partial Withdrawal amounts. If the insured dies by suicide, while sane or insane, within two years of the effective date of any increase in the face amount, no death benefit will be paid with respect to that increase. Instead, we will refund the Mortality Charges made with respect to that increase.

**Misstatement of Age or Sex** – If there is a misstatement of age or sex in the application, the amount of the death benefit shall be that which would be purchased by the most recent Mortality Charge for the correct age and sex.

For all policy years after the policy year in which the misstatement is discovered, the Accumulated Value will be calculated using Mortality Charges based on the correct age and sex. The Accumulated Value for the year in which the misstatement is discovered will not be recalculated. Surrender Charges will not be recalculated.

**Juvenile Risk Classification** – If an insured's age on the policy date is less than 20, you will be notified at the last known address at least 60 days prior to attainment of age 20 of the option to apply for "Nonsmoker" risk status. This option must be requested in writing and accompanied by satisfactory evidence of nonsmoking.

**Basis of Values** – A detailed statement showing how values are determined has been filed with the state insurance department. All values are not less than the minimums required by the law in the state in which this policy is delivered and the Standard Nonforfeiture Law. All Guaranteed Values and the Guaranteed Maximum Monthly Cost of Insurance Rates are based on the 1980 CSO Mortality Table (ANB) and interest at the rate of 4% per year. For policies that are issued on a unisex basis, the 1980 CSO Table B applies. For both sex distinct and unisex issues, the Guaranteed Monthly Cost of Insurance Rates are the same for nonsmoker and smoker classifications.

## Index

	<u>Page</u>
Accumulated Value	8
Administrative Charges	3,10
Age	3,6
Annual Report	12
Assignment	12
Basis of Values	13
Beneficiary	3,12
Benefit Change Provision	8
Cash Surrender Value	10
Cost of Insurance Rates	9
Death Benefit Options	7
Death Benefit Qualification	7
Death Proceeds	7
Definitions	6
Dividends	10
Entire Contract	12
Face Amount	3
General	11
Grace Period	6
Guideline Minimum Death Benefit	7
Illustrative Report	12
Income Benefits	11
Incontestability	12
Insurance Charges	4,10
Interest	3,9
Juvenile Risk Classification	13
Lapse	6
Loan Interest	11
Maturity	10
Misstatement	12
Mortality Charges	9
Owner	3,11
Partial Withdrawal	10
Policy Benefits	7
Policy Date	3,6
Policy Loans	11
Policy Specifications	3,4,5
Premiums	3,6
Premium Limitation	6
Reinstatement	7
Repayment	11
Suicide Exclusion	12
Surrender	10
Surrender Charge	10
Termination	11

**Exchange of Insured Rider**

**Benefit** – You may exchange the named insured on this policy for a new insured, subject to this rider’s terms.

**Exchange Conditions** – Exercise of this exchange will be subject to the following conditions:

- § the new insured must submit evidence of insurability satisfactory to us;
- § you must make written application for the exchange, return this policy for reissue and pay any costs or charges as determined by us.

**Exchange Date** – The exchange date is the first monthly payment date on or after the date the exchange conditions are met.

**Coverage on New Insured** – Coverage on the new insured will become effective on the exchange date. Coverage on the current insured will terminate on the day before the exchange date.

This policy’s policy date will not be changed unless the new insured was born after the policy date. In that case, the new policy date will be the anniversary of this policy next following the birthdate of the new insured.

The cost of insurance rates for the new insured will be those applicable for the new insured’s attained age and risk classification. Riders on the new insured will be added only with our consent and subject to our requirements.

The face amount will not be affected by the exchange. If a different face amount is desired on the new insured, the Increase or Decrease provision of the policy can be exercised.

**Suicide Exclusion** – If the new insured dies by suicide, while sane or insane, within two years of the exchange date, no death benefit will be paid. Instead, we will return the cash value as of the exchange date, plus the sum of the premiums paid since the exchange date, less the sum of any debt, partial withdrawal amounts, and any dividends paid in cash.

**Incontestability** – Except for failure to pay premiums, this policy cannot be contested after it has been in force during the new insured’s lifetime for two years from the exchange date.

**Effective Date** – This rider is effective on the policy date unless otherwise stated hereon. This rider will terminate:

- § on termination or lapse of this policy; or
- § if the option provided by this rider is exercised.

**General Conditions** – Any indebtedness or assignment outstanding against this policy will not be affected by the exchange. This rider is a part of the policy to which it is attached. All terms of this policy which do not conflict with the rider’s terms apply to this rider.

**Pacific Life Insurance Company**

**[SIGNATURE APPEARS HERE]**

**[SIGNATURE APPEARS HERE]**

Chairman and Chief Executive Officer

Secretary

## ADDED PROTECTION BENEFIT

**Covered Person** – As used in this benefit, “Covered Person” means any of the individuals covered under this benefit on the Policy Date. Covered Persons may be deleted from or, with evidence of insurability, added to this benefit. When this occurs, we will send you revised Policy Specifications pages.

**Coverage** – When we receive proof that a Covered Person’s death occurred while this benefit was in force, we will pay the Coverage Amount in effect, if any, on that Covered Person under this benefit on the date of that Covered Person’s death.

**Coverage Amount** – The Coverage Amount on any Covered Person provided by this benefit in any policy year is equal to the greater of zero or the result of (1) minus (2) shown below where the Covered Person is also the insured in the base policy, and is otherwise equal to (1) below.

- (1) is the Target Amount you specified in the application for that Covered Person and for that policy year. This Target Amount is also shown separately for each Covered Person in the Policy Specifications pages; such amount may be level or varying by policy year.

Subject to our approval, you may change the Target Amount for any Covered Person and for any policy year, if you request such change in writing during the lifetime of the Covered Person. Such change requests may be made not more than once per policy year. You must provide evidence of insurability satisfactory to us before any request for an increase in Target Amount becomes effective. An administrative charge of \$100 will be deducted from the base policy Accumulated Value on the effective date of any increase in Target Amount. Any decrease in Target Amount which you request for any policy year may require associated decreases in Target Amounts for future policy years. You will be informed of such associated future decreases, and your consent will be obtained before your requested decrease becomes effective. Any decrease will first be applied against the most recent increase, if any, and then against successively earlier increases, if any, and finally against the original Target Amounts.

- (2) is any increase in the base policy death benefit payable in that policy year which results from either the Guideline Premium Test or the Cash Value Accumulation Test defined in the Internal Revenue Code. The applicable test is described in the base policy.

**Mortality Charges** – The Mortality Charges for this benefit are calculated separately for each Covered Person. The Mortality Charge for any Covered Person in any policy year is equal to the product of the applicable monthly Cost of Insurance Rate times the Coverage Amount divided by the sum of one plus the monthly Guaranteed Interest Rate shown in the base policy. The Cost of Insurance Rates vary by age, duration, and risk classification and are subject to change by us at any time, but will not exceed the Guaranteed Maximum Monthly Cost of Insurance Rates for this benefit shown in the Policy Specifications pages. Any such change will be made without regard to any change in health of any Covered Person.

**Conversion** – While this benefit is in force, the Coverage Amount under this benefit on any Covered Person may be converted at your request, without evidence of insurability, to a new policy on that Covered Person’s life at any time before that Covered Person is age 65. This benefit may be converted during the first two years it is in force regardless of that Covered Person’s age. The Coverage Amount on that Covered Person under this benefit will be cancelled on the new policy’s Policy Date. The new policy’s Policy Date and the conversion date will be the monthly payment date which next follows the date of our receipt of your written request for conversion.

The amount of insurance under the new policy may not exceed the lesser, of the Coverage Amount provided under this benefit on that Covered Person on the conversion date, or the smallest Target Amount for that Covered Person for the five-year period following the new policy’s Policy Date. If the Target Amount you specified for that Covered Person is level for all policy years, then the smallest Target Amount shall mean the level Target Amount. A lesser amount may be selected as long as it is not less than our regular minimum limit at the time of conversion.

The new policy may be on any life insurance plan, other than term insurance, that we regularly issue at the time of conversion. It will be issued in the same risk classification and contain the same restrictions, if any, as this benefit. It will be issued at our published rates which apply at that Covered Person's age on the new policy's Policy Date.

Additional benefits or riders will not be included in the new policy without our consent at the time of conversion.

**Effective Date** – This benefit is effective on the Policy Date unless otherwise stated.

**Termination** – This benefit will terminate on the earliest of:

- § your written request; or
- § lapse of this policy; or
- § conversion of the entire Coverage Amount; or
- § termination of this policy.

**General Conditions** – This benefit is part of the policy to which it is attached. As applied to this benefit, the periods stated in this policy's Incontestability and Suicide provisions will start with this benefit's effective date. All terms of this policy which do not conflict with this benefit's terms apply to this benefit.

**Pacific Life Insurance Company**

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Chairman and Chief Executive Officer

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Secretary

**SUMMARY DOCUMENT AND DISCLAIMER**

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

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

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

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

**Policyholders with additional questions should first contact their insurer or agent or may then contact:**

**California Life and Health Insurance Guarantee Association  
P.O. Box 17319  
Beverly Hills, California 90209-3319  
or  
Consumer Service Division  
California Department of Insurance  
300 South Spring Street  
Los Angeles, California 90013**

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

**COVERAGE**

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

## **EXCLUSIONS FROM COVERAGE**

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

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

The Guarantee Association also does not provide coverage for:

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

## **LIMITS ON AMOUNT OF COVERAGE**

The Act limits the Association to pay benefits as follows:

### **LIFE AND ANNUITY BENEFITS**

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

### **HEALTH BENEFITS**

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

### **PREMIUM SURCHARGE**

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

HOME OFFICE ENDORSEMENT

INSURED: RONALD D SUGAR

POLICY NO: 1A2386764-0

THIS POLICY IS AMENDED IN ACCORDANCE WITH THE POLICY CHANGE REQUEST. THIS ENDORSEMENT IS PART OF THE POLICY AND SHOULD BE ATTACHED.

RIDER TYPE ADDED PROTECTION BENEFIT

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AMOUNT OF INCREASE		\$	87,083.00
AMOUNT OF RIDER AFTER INCREASE		\$	2,011,949.00
EFFECTIVE DATE OF INCREASE	JUN 1, 2001		
CEASE DATE OF INCREASE	JUN 1, 2043		
PERSON COVERED	RONALD D SUGAR		
AGE AT INCREASE	53		
RISK CLASSIFICATION	MALE NONSMOKER		
TOTAL COVERAGE		\$	2,493,166.00



**FLEXIBLE PREMIUM ADJUSTABLE  
LIFE INSURANCE POLICY**

§ Flexible Premiums Payable to Age 95

§ Adjustable Face Amount

§ Participating

FORM: 92-45

**STATEMENT OF POLICY COST AND BENEFIT INFORMATION  
FLEXIBLE PREMIUM ADJUSTABLE LIFE**

PACIFIC LIFE INSURANCE COMPANY  
P.O. BOX 6390  
NEWPORT BEACH, CA 92658-6390

MC INSURANCE SERVICES INC  
P W M INSURANCE  
ENGINE CO BLDG #28  
644 S FIGUEROA  
LOS ANGELES CA 90017

THIS INFORMATION IS PROVIDED TO ASSIST YOU IN BETTER UNDERSTANDING YOUR POLICY. THE BASIC BENEFIT COVERAGE IS SHOWN BELOW. YOUR POLICY IS THE ENTIRE CONTRACT, WHICH FULLY DESCRIBES YOUR BENEFITS.

OWNER NAME: LITTON INDUSTRIES INC

AGE ON POLICY DATE: 52

INSURED NAME: RONALD D SUGAR

RISK CLASS: MALE NONSMOKER

FORM: 92-45

POLICY YEAR	ANNUAL PREMIUM	GUARANTEED INTEREST AND MORTALITY CHARGES		NON-GUARANTEED CURRENT INTEREST AND MORTALITY CHARGES	
		DEATH BENEFIT	SURRENDER VALUE	DEATH BENEFIT	SURRENDER VALUE
1	\$31,083.00	\$2,406,083	\$ 7,849	\$2,406,083	\$ 18,356
2	\$31,083.00	\$2,557,166	\$ 11,329	\$2,557,166	\$ 36,074
3	\$31,083.00	\$2,714,249	\$ 10,066	\$2,714,249	\$ 53,049
4	\$31,083.00	\$2,878,332	\$ 3,287	\$2,878,332	\$ 69,160
5	\$31,083.00	\$ 0	\$ 0	\$3,048,415	\$ 84,282
6	\$31,083.00	\$ 0	\$ 0	\$3,225,498	\$ 105,258
7	\$31,083.00	\$ 0	\$ 0	\$3,409,581	\$ 124,985
8	\$31,083.00	\$ 0	\$ 0	\$3,601,664	\$ 142,806
9	\$31,083.00	\$ 0	\$ 0	\$3,800,747	\$ 157,964
10	\$31,083.00	\$ 0	\$ 0	\$4,009,830	\$ 176,031
11	\$31,083.00	\$ 0	\$ 0	\$4,226,913	\$ 184,003
12	\$31,083.00	\$ 0	\$ 0	\$4,452,996	\$ 185,722
13	\$31,083.00	\$ 0	\$ 0	\$4,690,080	\$ 179,736
14	\$ 0.00	\$ 0	\$ 0	\$1,507,079	\$ 176,649
15	\$ 0.00	\$ 0	\$ 0	\$1,507,079	\$ 172,951
16	\$ 0.00	\$ 0	\$ 0	\$1,507,079	\$ 168,870
17	\$ 0.00	\$ 0	\$ 0	\$1,507,079	\$ 162,702
18	\$ 0.00	\$ 0	\$ 0	\$1,507,079	\$ 153,938
19	\$ 0.00	\$ 0	\$ 0	\$ 529,079	\$ 158,467
20	\$ 0.00	\$ 0	\$ 0	\$ 529,079	\$ 189,703
AGE 65	\$31,083.00	\$ 0	\$ 0	\$4,690,080	\$ 179,736

DIVIDENDS ARE BASED ON THE COMPANY'S CURRENT DIVIDEND SCALE AND ARE NOT GUARANTEED.

**STATEMENT OF POLICY COST AND BENEFIT INFORMATION  
SUMMARY OF COVERAGE AND PREMIUMS**

COST INDEX	LIFE INSURANCE COST INFORMATION					
	GUARANTEED			CURRENT		
	5 YEAR	10 YEAR	20 YEAR	5 YEAR	10 YEAR	20 YEAR
SURRENDER @ 5%		11.82	11.82		5.74	6.36
NET PAYMENT	11.82	11.82	11.82	11.49	10.05	8.30
EQUIVALENT LEVEL ANNUAL DIVIDEND		0.00	0.00		0.00	0.00

AN EXPLANATION OF THE INTENDED USE OF THESE INDICES AND OF THE EQUIVALENT LEVEL ANNUAL DIVIDEND IS PROVIDED IN THE LIFE INSURANCE BUYER'S GUIDE.

\*\*\*\* IMPORTANT NOTICE \*\*\*\*

ACTUAL RESULTS WILL DIFFER FROM THE PROJECTIONS SHOWN ON THE PREVIOUS PAGE IF THERE IS A CHANGE IN THE INTEREST RATES, MORTALITY CHARGES OR THE TIMING AND AMOUNT OF YOUR PREMIUM PAYMENTS. THE NON-GUARANTEED AMOUNTS SHOWN ARE BASED ON OUR CURRENT UNLOANED INTEREST RATE OF 6.45%. WE MAY CHANGE THE CURRENT INTEREST RATE AT ANY TIME BUT MAY NOT CREDIT LESS THAN THE GUARANTEED ANNUAL RATE OF 4.00%. WE MAY CHANGE THE CURRENT MORTALITY CHARGES AT ANY TIME BUT MAY NOT CHARGE MORE THAN THE GUARANTEED CHARGES. FURTHER, THE TAX STATUS OF THIS CONTRACT SHOULD BE REVIEWED EACH YEAR. FOR FURTHER INFORMATION, CONTACT THE INSURANCE COMPANY OR YOUR AGENT SHOWN AT THE TOP OF PAGE 1.

\*\*\* THE PROJECTED VALUES ON THE PREVIOUS PAGE INCLUDE THE \*\*\*  
 \*\*\* COSTS AND BENEFITS OF THE BASIC COVERAGE \*\*\*  
 \*\*\* AND ANY ADDITIONAL INSURANCE OR PREMIUM RIDERS. \*\*\*

TYPE OF COVERAGE	BENEFIT AMOUNT
<b>BASIC COVERAGE:</b>	
FLEXIBLE PREMIUM ADJUSTABLE LIFE	\$ 481,217.00
CASH VALUE VERSION	
<b>ADDITIONAL INSURANCE RIDERS:</b>	
ADDED PROTECTION BENEFIT	1,924,866.00
<b>OTHER RIDERS:</b>	
EXCHANGE OF INSURED RIDER	



*GROUP PERSONAL  
EXCESS LIABILITY  
POLICY*



Chubb Group of Insurance Companies  
15 Mountain View Road, Warren, New Jersey 07060

**Group  
Personal Excess  
Liability Policy**

**COVERAGE SUMMARY**

Name and address of Insured

VICE PRESIDENTS, NON OFFICERS & RETIREES  
OF NORTHROP GRUMMAN CORPORATION  
1840 CENTURY PARK EAST, 152/CC  
LOS ANGELES, CALIFORNIA  
90067

Policy Number (05) 7952-68-99

Issued by the stock insurance company indicated below, herein called the Company.

CHUBB CUSTOM INSURANCE COMPANY  
Incorporated under the laws of Delaware, herein called the Company.

Sponsoring Organization and Address

NORTHROP GRUMMAN CORPORATION  
1840 CENTURY PARK EAST,  
152/CC  
LOS ANGELES, CA 90067

Producer Number 0054782

**Policy Period**

From: NOVEMBER 01, 2004 To: NOVEMBER 01, 2005

**Premium**

Amount  
\$302,150.00

**Limit of Liability**

SEE ENDT. Each Occurrence  
\$2,000,000 Excess Uninsured / Underinsured  
Motorists Protection Each Occurrence

**Required Primary Underlying Insurance**

Personal Liability (Homeowners) for personal injury and property damage in the minimum amount of \$100,000 each occurrence.

Registered vehicles in the minimum amount of \$250,000 / \$500,000 bodily injury and \$100,000 property damage; or \$300,000 single limit each occurrence. Registered vehicles included motorcycles and motorhomes.

Unregistered vehicles in the minimum amount of \$100,000 bodily injury and property damage each occurrence.

Watercraft less than 26 feet and 50 engine rated horsepower or less for bodily and property damage in the minimum amount of \$100,000 each occurrence.

Watercraft 26 feet or longer or more than 50 engine rated horsepower for bodily injury and property damage in the minimum amount of \$500,000 each occurrence.

Uninsured / Underinsured motorists protection in the minimum amount of \$250,000 / \$500,000 bodily injury or \$300,000 single limit occurrence.

**FAILURE TO COMPLY WITH THE REQUIRED PRIMARY UNDERLYING INSURANCE WILL RESULT IN A GAP IN COVERAGE.**

**Amendments to Your Policy, if any**

Mandatory Amendment: Subject to Chubb Custom Insurance Company Personal Excess Liability Form Service of Suit Clause

**Authorization**

In Witness Whereof, the company issuing this policy has caused this policy to be signed by its authorized officers, but this policy shall not be valid unless also signed by a duly authorized representative of the company.

**CHUBB CUSTOM INSURANCE COMPANY**



*Secretary*



*President*



*Authorized Representative*

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*Date* NOVEMBER 18, 2004

*Producer's Name & Address*

AON RISK SERVICES/PRIVATE RISK MANAGEMENT  
707 WILSHIRE BLVD., STE. 6000  
LOS ANGELES, CA 90017



## INTRODUCTION

This is your Chubb Group Personal Excess Liability Policy. Together with your Coverage Summary, it explains your coverages and other conditions of your insurance in detail.

This policy is a contract between you and us. **READ YOUR POLICY CAREFULLY** and keep it in a safe place.

### **Agreement**

We agree to provide the insurance described in this policy in return for the premium paid by the Sponsoring Organization and your compliance with the policy conditions.

### **Definitions**

In this policy, we use words in their plain English meaning. Words with special meanings are defined in the part of the policy where they are used. The few defined terms used throughout the policy are defined here:

**You** means the individual who is a member of the Defined Group shown as the Named Insured in the Coverage Summary.

**We** and **us** mean the insurance company named in the Coverage Summary.

**Family member** means your relative who lives with you, or any other person under 25 in your care or your relative's care who lives with you.

**Sponsoring Organization** means the entity, corporation, partnership or sole proprietorship sponsoring and defining the criteria for qualification as a Named Insured.

**Policy** means your entire Group Personal Excess Liability Policy, including the Coverage Summary.

**Coverage Summary** means the most recent Coverage Summary we issued to you, including any subsequent coverage amendments.

**Occurrence** means a loss or accident to which this insurance applies occurring within the policy period. Continuous or repeated exposure to substantially the same general conditions unless excluded is considered to be one occurrence.

**Business** means any employment, trade, occupation, profession, or farm operation including the raising or care of animals.

**Defined Group** means those individuals meeting the criteria for qualification as Named Insured as defined by the Sponsoring Organization and accepted by us.

## GROUP PERSONAL EXCESS LIABILITY COVERAGE

This part of your Group Personal Excess Liability Policy provides you with liability coverage in excess of your underlying insurance anywhere in the world unless stated otherwise or an exclusion applies.

Payment for a Loss

### **Amount of coverage**

The amount of coverage for liability is shown in the Coverage Summary. We will pay on your behalf up to that amount for covered damages from any one occurrence, regardless of how many claims, homes, vehicles, watercraft, or people are involved in the occurrence.

Any costs we pay for legal expenses (see **Defense coverages**) are in addition to the amount of coverage.

### **Underlying Insurance**

We will pay only for covered damages in excess of all underlying insurance covering those damages, even if the underlying coverage is for more than the minimum amount.

“Underlying insurance” includes all liability coverage that applies to the covered damages, except for other insurance purchased in excess of this policy.

**Payment for a Loss***(continued)***Required primary underlying insurance**

Regardless of whatever other primary underlying insurance may be available in the event of a claim or loss, it is a condition of your policy that you and your family members must maintain in full effect primary underlying liability insurance of the types and in at least the amounts set forth below unless a different amount is shown in your Coverage Summary, covering your personal liability and to the extent you have such liability exposures, all vehicles and watercraft you or your family members own, or rent for longer than 30 days, or have furnished for longer than 30 days, as follows:

Personal liability (homeowners) for personal injury and property damage in the minimum amount of \$100,000 each occurrence.

Registered vehicles in the minimum amount of:

\$250,000/\$500,000 bodily injury and \$100,000 property damage;  
\$300,000 single limit each occurrence.

Unregistered vehicles in the minimum amount of \$100,000 bodily injury and property damage each occurrence.

Watercraft less than 26 feet and 50 engine rated horsepower or less for bodily injury and property damage in the minimum amount of \$100,000 each occurrence.

Watercraft 26 feet or longer or more than 50 engine rated horsepower for bodily injury and property damage in the minimum amount of \$500,000 each occurrence.

Uninsured motorists/underinsured motorist protection in the minimum amounts of \$250,000/\$500,000 bodily injury, \$100,000 property damage or \$300,000 single limit each occurrence.

Failure by you or your family members to comply with this condition, or failure of any of your primary underlying insurers due to insolvency or bankruptcy, shall not invalidate this policy. In the event of any such failure, we shall only be liable in excess of the foregoing minimum amounts and to no greater extent with respect to coverages, amounts and defense costs than we would have been had this failure not occurred.

You must also give notice of losses and otherwise cooperate and comply with the terms and conditions of such primary underlying insurance.

**Excess Liability Coverage**

We cover damages a covered person is legally obligated to pay for personal injury or property damage, caused by an occurrence:

in excess of damages covered by the underlying insurance; or

from the first dollar of damage where no underlying insurance is required under this policy and no underlying insurance exists; or

from the first dollar of damage where underlying insurance is required under this policy but no coverage is provided by the underlying insurance for a particular occurrence, unless stated otherwise or an exclusion applies.

Exclusions to this coverage are described in **Exclusions**.

“Follow form” means:

We cover damages to the extent they are both covered under the Required Primary Underlying Insurance and, not excluded under this policy. Also, the amount of coverage, defense coverages, cancellation and “other insurance” provisions of this policy supersede and replace the similar provisions contained in such other policies. When this policy is called upon to pay losses in excess of required primary underlying policies exhausted by payment of claims, we do not provide broader coverage than provided by such policies. When no primary underlying coverage exists, the extent of coverage provided on a follow form basis will be determined as if the required primary underlying insurance has been written on policy forms filed by Insurance Services Office.

A “covered person” means:

you are a family member;

any person using a vehicle or watercraft covered under this policy with permission from you or a family member with respect to their legal responsibility arising out of its use;





**Excess Liability Coverage**

(continued)

any person or organization with respect to their legal responsibility for acts or omissions of you or a family member; or any combination of the above.

“Damages” means the sum that is paid or is payable to satisfy a claim settled by us or resolved by judicial procedure or by a compromise we agree to in writing.

“Personal injury” means the following injuries, and resulting death:

- bodily injury;
- shock, mental anguish, or mental injury;
- false arrest, false imprisonment, or wrongful detention;
- wrongful entry or eviction;
- malicious prosecution or humiliation; and
- libel, slander, defamation of character, or invasion of privacy.

“Bodily injury” means physical bodily harm, including sickness or disease that results from it, and required care, loss of services and resulting death.

“Property damage” means physical injury to or destruction of tangible property and the resulting loss of its use. Tangible property includes the cost of recreating or replacing stocks, bonds, deeds, mortgages, bank deposits, and similar instruments, but does not include the value represented by such instruments.

“Registered vehicle” means any motorized land vehicle not described in “unregistered vehicle.”

“Unregistered vehicle” means:

- any motorized land vehicle not designed for or required to be registered for use on public roads;
- any motorized land vehicle which is in dead storage at your residence;
- any motorized land vehicle used solely on and to service your residence premises; or
- golf carts.

**Excess uninsured motorists/underinsured motorist protection**

This coverage is in effect only if excess uninsured motorists/underinsured motorist protection is shown in the Coverage Summary.

We cover damages for bodily injury and property damage a covered person is legally entitled to receive from the owner or operator of an uninsured motorized/underinsured motorized land vehicle. We cover these damages in excess of the underlying insurance or the Required Primary Underlying Insurance, whichever is greater, if they are caused by an occurrence during the policy period, unless otherwise stated.

**Amount of coverage.** The maximum amount of excess uninsured motorists/underinsured motorist protection available for any one occurrence is the excess uninsured motorists/underinsured motorist protection amount shown in the Coverage Summary regardless of the number of vehicles covered by the Required Premium Underlying Insurance. We will not pay more than this amount in any one occurrence for covered damages regardless of how many claims, vehicles or people are involved in the occurrence.

This coverage will follow form.

**Uninsured motorists/underinsured motorist protection arbitration**

If we and a covered person disagree whether that person is legally entitled to recover damages from the owner or operator of an uninsured motor vehicle/underinsured motor vehicle, or do not agree as to the amount of damages, either party may make a written demand for arbitration. In this event, each party will select an arbitrator. The two arbitrators will select a third. If they cannot agree on a third arbitrator within 45 days, either may request that the arbitration be submitted to the American Arbitration Association. When the covered person’s recovery exceeds the minimum limit specified in the applicable jurisdiction’s financial responsibility law, each party will pay the expenses it incurs, and bear the expenses of the third arbitrator equally. Otherwise, we will bear all the expenses of the arbitration.

Unless both parties agree otherwise, arbitration will take place in the county and state in which the covered person lives. Local rules of law as to procedure and evidence will apply. A decision agreed to by two arbitrators will be binding unless the recovery amount for bodily injury exceeds the minimum limit specified by the applicable jurisdiction’s financial responsibility law. If the amount exceeds that limit, either party may demand the right to a trial. This demand must be made within 60 days of the arbitrator’s decision. If this demand is not made, the amount of damages agreed to by the arbitrators will be binding.

**Excess Liability Coverage***(continued)***Defense coverages**

We will defend a covered person against any suit seeking covered damages for personal injury or property damage that is either:

- not covered by any underlying insurance; or
- covered by an underlying policy as each Defense Coverage has been exhausted by payment of claims.

We provide this defense at our expense, with counsel of our choice, even if the suit is groundless, false, or fraudulent. We may investigate, negotiate, and settle any such claim or suit at our discretion.

As part of our investigation, defense, negotiation, or settlement, we will pay:

- all premiums on appeal bonds required in any suit we defend;
- all premiums on bonds to release attachments for any amount up to the amount of coverage (but we are not obligated to apply for or furnish any bond);
- all expenses incurred by **us**;
- all costs taxed against a covered person;
- all interest accruing after a judgment is entered in a suit we defend on only that part of the judgment we are responsible for paying.

We will not pay interest accruing after we have paid the judgment up to the amount of coverage;

all prejudgment interest awarded against a covered person on that part of the judgment we pay or offer to pay. We will not pay any prejudgment interest based on that period of time after we make an offer to pay the amount of coverage;

all earnings lost by each covered person at our request, up to \$250 a day, to a total of \$10,000;

other reasonable expenses incurred by a covered person at our request; and

the cost of bail bonds required of a covered person because of a covered loss.

In jurisdictions where we may be prevented by local law from carrying out these Defense Coverages, we will pay only those defense expenses that we agree in writing to pay and that are incurred by you.

**Exclusions**

These exclusions apply to your Group Personal Excess Liability Coverage, unless stated otherwise.

**Owned motorcycles and owned motor homes.** We do not cover any damages arising out of the ownership, maintenance, use, loading or unloading of any owned motorcycle or owned motor home unless there is coverage under the Required Primary Underlying Insurance for the motorcycle or motor home. The coverage for owned motorcycles and owned motor homes is on a follow form basis.

**Aircraft.** We do not cover any damages arising out of the ownership, maintenance, use, loading, unloading, or towing of any aircraft, except aircraft chartered with crew by you. We do not cover any property damages to aircraft rented to, owned by, or in the care, custody or control of a covered person.

**Large watercraft.** We do not cover any damages arising out of the ownership, maintenance, use, loading, unloading or towing of any watercraft 26 feet or longer or with more than 50 engine rated horsepower owned by a covered person, or furnished or rented to a covered person for longer than 30 days. But we do cover watercraft being stored, unless another exclusion applies. Coverage is provided on a following form basis if the watercraft is covered under the Required Primary Underlying Insurance.

**Motorized land vehicle, watercraft and aircraft racing.** We do not cover any damages arising out of the participation in or practice for competitive racing of any motorized land vehicle, watercraft or aircraft. This exclusion does not apply to sailboat racing even if the sailboat is equipped with an auxiliary motor.

**Motorized land vehicle and watercraft-related jobs.** We do not cover any person while employed or otherwise engaged in the business of selling, repairing, servicing, storing, parking, docking, mooring, testing, or delivering motorized land vehicles or watercraft.

**Motorized land vehicle and watercraft loading.** We do not cover any person or organization, with respect to the loading or unloading of motorized land vehicles or watercraft.



**Exclusions**  
(continued)

**Workers' compensation or disability.** We do not cover any damages a covered person is legally obligated to provide under any workers' compensation, disability benefits, unemployment compensation or similar laws. But we do provide coverage in excess over any other insurance for damages a covered person is legally obligated to pay for bodily injury to a domestic employee of a residence covered under the Required Primary Underlying Insurance which are not compensable under workers' compensation, unless another exclusion applies.

**Director's liability.** We do not cover any damages for any covered person's actions or failure to act as an officer or member of a board of directors of any corporation or organization. This exclusion does not apply to a not-for-profit corporation or organization, or to a condominium or cooperative association.

**Damage to covered person's property.** We do not cover any person for property damage to property owned by any covered person.

**Damage to property in your care.** We do not cover any person for property damage to property rented to, occupied by, used by, or in the care of any covered person, to the extent that the covered person is required by contract to provide insurance. But we do cover such damages for loss caused by fire, smoke, or explosion unless another exclusion applies.

**Discrimination.** We do not cover any damages arising out of discrimination due to age, race, color, sex, creed, national origin, or any other discrimination.

**Intentional acts.** We do not cover any damages arising out of an act intended by a covered person to cause personal injury or property damage, even if the injury or damage is of a different degree or type than actually intended or expected. An intentional act is one whose consequences could have been foreseen by a reasonable person. But we do cover such damages if the act was intended to protect people or property unless another exclusion applies.

**Molestation, misconduct or abuse.** We do not cover any damages arising out of any actual, alleged or threatened:

- sexual molestation;
- sexual misconduct or harassment; or
- abuse.

**Nonpermissive use.** We do not cover any person who uses a motorized land vehicle or watercraft without permission from you or a family member.

**Business pursuits.** We do not cover any damages arising out of a covered person's business pursuits, investment or other for-profit activities, for the account of a covered person or others, or business property except on a follow form basis.

But we do cover damages arising out of volunteer work for an organized charitable, religious or community group, an incidental business away from home, incidental business at home, incidental business property, incidental farming, or residence premises conditional business liability unless another exclusion applies. We also cover damages arising out of your ownership, maintenance, or use of a private passenger motor vehicle in business activities other than selling, repairing, servicing, storing, parking, testing, or delivering motorized land vehicles.

"Incidental business away from home" is a self-employed sales activity, or a self-employed business activity normally undertaken by person under the age of 18 such as newspaper delivery, babysitting, caddying, and lawn care. Either of these activities must:

- not yield gross revenues in excess of \$5,000 in any year;
- have no employees subject to worker's compensation or other similar disability laws;
- conform to local, state, and federal laws.

**Exclusions**  
(continued)

“Incidental business at home” is a business activity, other than farming, conducted on your residence premises which must:

- not yield gross revenues in excess of \$5,000 in any year, except for the business activity of managing one’s own personal investments;
- have no employees subject to worker’s compensation or other similar disability laws;
- conform to local, state, and federal laws.

“Incidental business property” is limited to the rental or holding for rental, to be used as a residence, of a condominium or cooperative unit owned by you, an apartment unit rented to you, a one or two family dwelling owned by you, or a three or four family dwelling owned and occupied by you. We provide this coverage only for premises covered under the Required Primary Underlying Insurance unless the rental or holding for rental is for:

- a residence of yours that is occasionally rented and that is used exclusively as a residence; or
- part of a residence of yours by one or two roomers or boarders; or
- part of a residence of yours as an office, school, studio, or private garage.

“Incidental farming” is a farming activity which meets all of the following requirements:

- is incidental to your use of the premises as your residence;
- does not involve employment of others for more than 1,000 hours of farm work during the policy period;
- does not produce more than \$2,500 in gross annual revenue from agricultural operations;
- and with respect to the raising or care of animals:
  - does not produce more than \$25,000 in gross annual revenues;
  - does not involve more than 10 sales transactions during the policy period;
  - does not involve the sale of more than 25 animals during the policy period.

“Residence premises conditional business liability” is limited to business or professional activities when legally conducted by you or a family member at your residence. We provide coverage only for personal injury or property damage arising out of the physical condition of that residence if:

- you do not have any employees involved in your business or professional activities who are subject to workers’ compensation or other similar disability laws; or, if you are a doctor or dentist, you do not have more than two employees subject to such laws; you do not earn annual gross revenues in excess of \$5,000, if you are a home day care provider.

We do not cover damages or consequences resulting from business or professional care or services performed or not performed.

**Financial guarantees.** We do not cover any damages for any covered person’s financial guarantee of the financial performance of any covered person, other individual or organization.

**Professional services.** We do not cover any damages for any covered person’s performing or failure to perform professional services, or for professional services for which any covered person is legally responsible or licensed.

**Acts of war.** We do not cover any damages caused directly or indirectly by war, undeclared war, civil war, insurrection, rebellion, revolution, warlike acts by military forces or personnel, the destruction or seizure of property for a military purpose, or the consequences of any of these actions.

**Contractual liability.** We do not cover any assessments charged against a covered person as a member of a condominium or cooperative association. We also do not cover any damages arising from contracts or agreements made in connection with any covered person’s business. Nor do we cover any liability for unwritten contracts, or contracts in which the liability of others is assumed after a covered loss.

**Covered person’s or dependent’s personal injury.** We do not cover any damages for personal injury for any covered person or their dependents where the ultimate beneficiary is the offending party or defendant. We also do not cover any damages for personal injury for which you can be held legally liable, in any way, to a family member or your spouse or for which a family member or your spouse can be held legally liable, in any way, to you.

However, we do cover damages for bodily injury arising out of the use of a motorized land vehicle for which you can be held legally liable to a family member or your spouse or for which a family member or your spouse can be held legally liable to you to the extent that coverage is provided under this policy. This coverage applied only to the extent such damages are covered by primary underlying insurance and exceed the limits of insurance required for the motorized land vehicle under the Required Primary Underlying Insurance provisions of this policy.

**Liability for dependent care.** We do not cover any damages for personal injury for which a covered person’s only legal liability is by virtue of a contract or other responsibility for a dependent’s care.



*Exclusions*  
*(continued)*

**Illness.** We do not cover personal injury or property damage resulting from any illness, sickness or disease transmitted intentionally or unintentionally by a covered person to anyone, or any consequence resulting from that illness, sickness or disease. We also do not cover any damages for personal injury resulting from the fear of contracting any illness, sickness or disease, or any consequence resulting from the fear of contracting any illness, sickness or disease.

**Parental liability.** We do not cover any damages arising from parental liability for the acts of a minor using a motorized land vehicle, watercraft 26 feet or longer or with more than 50 engine rated horsepower, or aircraft. But we do cover parental liability for the acts of a minor using a motorized land vehicle or watercraft on a follow form basis for the type of motorized land vehicle or watercraft involved, unless another exclusion applies.

**Entrustment.** We do not cover any damages arising from the entrustment by any covered person of a motorized land vehicle, watercraft 26 feet or longer or with more than 50 engine rated horsepower, or aircraft to any person. But we do cover entrustment by any covered person of a motorized land vehicle or watercraft on a follow form basis for the type of motorized land vehicle or watercraft involved, unless another exclusion applies.

**Nuclear or radiation hazard.** We do not cover any damages caused directly or indirectly by nuclear reaction, radiation, or radioactive contamination, regardless of how it was caused.

**POLICY TERMS**

This part of your Group Personal Excess Liability Policy explains the conditions that apply to your policy.

**General Conditions**

These conditions apply to your policy in general, and to each coverage in it.

**Policy period**

The effective dates of your policy are shown in the Coverage Summary. Those dates begin at 12:01 a.m. standard time at the mailing address shown.

All coverages on this policy apply only to occurrences that take place while this policy is in effect.

**Renewals**

We may offer to continue this policy for renewal periods, at the premiums and under the policy provisions in effect at the date of renewal. We may do this by mailing you a bill for the premium to the address shown in the Coverage Summary, along with any changes in the policy provisions or amounts of coverage.

You may accept our offer by paying the required premium on or before the starting date of each renewal period.

**Transfer of rights**

If we make a payment under this policy, we will assume any recovery rights a covered person has in connection with that loss, to the extent we have paid for the loss.

All of your rights of recovery will become our rights to the extent of any payment we make under this policy. A covered person will do everything necessary to secure such rights; and do nothing after a loss to prejudice such rights. However, you may waive any rights of recovery from another person or organization for a covered loss in writing before the loss occurs.

**Concealment or fraud**

This policy is void if you or any covered person has intentionally concealed or misrepresented any material fact relating to this policy before or after a loss.

**Application of coverage**

Coverage applies separately to each covered person. However, this provision does not increase the amount of coverage for any one occurrence.

**Assignment**

You cannot transfer your interest in this policy to anyone else unless we agree in writing to the transfer.

**Policy changes**

This policy can be changed only by a written amendment we issue.

**Bankruptcy or insolvency**

We will meet all our obligations under this policy regardless of whether you, your estate, or anyone else or their estate becomes bankrupt or insolvent.

**In case of death**

In the event of your death, coverage will be provided until the end of the policy period or policy anniversary date, whichever occurs first, for any surviving member of your household who is a covered person at the time of death. We will also cover your legal representative or any person having proper temporary custody of your property.

**Conforming to state law**

If any provisions of this policy conflicts with any applicable laws of the state you live in, this policy is amended to conform to those laws.

**Liability Conditions**

These conditions apply to all liability coverages in this policy.

**Other Insurance**

This insurance is excess over any other insurance except that written specifically to cover excess over the amount of coverage that applies in this policy.



**Liability Conditions**  
(continued)

**Your duties after a loss**

In case of an accident or occurrence, the covered person shall perform the following duties that apply:

**Notification.** You must notify us or your agent or broker as soon as possible.

**Assistance.** You must provide us with all available information. This includes any suit papers or other documents which help us in the event that we defend you.

**Cooperation.** You must cooperate with us fully in any legal defense. This may include any association by us with the covered person in defense of a claim reasonably likely to involve us.

**Appeals**

If a covered person, or any primary insurer, does not appeal a judgment for covered damages, we may choose to do so. We will then become responsible for all expenses, taxable costs, and interest arising out of the appeal. However, the amount of coverage for damages will not be increased.

**Special Conditions**

In the event of conflict with any other conditions of your policy, these conditions supersede.

**Legal action against us**

You agree not to bring action against us unless you have first complied with all conditions of this policy. If you have a loss, you agree not to bring any action against us until the obligation has been determined by final judgment or a written agreement by us.

**Notice of cancellation and coverage termination conditions**

**Your cancellation.** The Sponsoring Organization may cancel this policy by returning it to us or notifying us in writing at any time subject to the following:

- the Sponsoring Organization must notify us in advance of the requested cancellation date; and
- the Sponsoring Organization must provide proof of notification to each member of the Defined Group covered under this policy.

**Our cancellation.** At our discretion we may cancel this policy by mailing to the Sponsoring Organization at the address shown on the Coverage Summary upon ten (10) days notice for non-payment of premium or thirty (30) days notice in all other cases.

**Termination.** Should an individual for any reason no longer qualify as a member of the Defined Group, coverage will cease **sixty (60)** days from the date of such termination, or the policy expiration or cancellation date, whichever comes first.

**Refund.** In the event of cancellation by the Sponsoring Organization or us, we will refund any unearned premium on the effective date of cancellation, or as soon as possible afterwards to the Sponsoring Organization. The unearned premium will be computed short rate for the unexpired term of the policy.



## ENDORSEMENT

Policy Period                   NOVEMBER 01, 2004 to NOVEMBER 01, 2005  
Effective Date                 NOVEMBER 01, 2004  
Policy Number                 ( 05 ) 7952-68-99  
Insured                         VICE PRESIDENTS, NON OFFICERS & RETIREES  
                                      OF NORTHROP GRUMMAN CORPORATION  
Name of Company               CHUBB CUSTOM INSURANCE COMPANY  
Date Issued                    NOVEMBER 18, 2004

## NAMED INSURED ENDORSEMENT

VICE PRESIDENTS, NON OFFICERS AND RETIREES OF NORTHROP GRUMMAN  
CORPORATION

\$10,000,000           LIMIT OF LIABILITY  
\$2,000,000            UNINSURED/UNDERINSURED MOTORISTS PROTECTION

Ronald D. Sugar

\$5,000,000            LIMIT OF LIABILITY  
\$2,000,000            UNINSURED/UNDERINSURED MOTORISTS PROTECTION

Lorenzo J. Abella  
Jerry B. Agee  
Daniel D. Allen  
Samuel Alsgood  
James E. Anton  
Dale S. Archer  
Daniel L. Arczynski  
James L. Armitage  
George T. Armsmeyer  
Lawrence A. Auffrey  
Dennis E. Averyt  
William B. Ballantyne  
David Barakat  
Barbara Barcon  
Leroy Barnidge  
James S. Barry  
Mary Ann Benischek  
Michael D. Bennett  
Alan C. Bennett  
Lawrence J. Blair  
Paul S. Borzcik  
Robert Brammer  
John F. Breitfeller



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Lynne O. Brickner  
Steve R. Briggs  
Denis Brown  
Joel E. Brown  
James D. Bryan  
Frederick H. Bullock  
Mary K. Burch  
James W. Burnett  
Dale E. Burton  
Carl J. Busch  
Wesley G. Bush  
Daniel L. Callihan  
James L. Cameron  
James F. Carlini  
William S. Carrier III  
Mark Carroll  
Patrick P. Caruana  
John D. Casko  
James G. Cassady  
Rajender J. Chandhok  
John Chino  
John L. Clay  
Joe D. Cole Jr  
Christopher B. Cool  
Joseph O. Costello  
Robert T. Cote  
Susan L. Cote  
Richard A. Croxall  
Brian J. Cuccias  
Daniel W. Culleton  
Steve T. Cummings  
John F. Daegele  
Martin E. Dandridge  
Chineta K. Davis  
John V. De Maso  
Robert L. Del Boca  
Joseph M. Delaney  
Anthony L. Deley  
David M. Di Carlo  
Gregory J. Donley  
Alan J. Doshier  
Thomas R. Douglas  
Michael P. Driscoll  
Robert W. Dubeau  
Gerard A. Dufresne  
Philip A. Dur  
Larry W. Edelman  
Irwin F. Edenzon  
John D. Edwards  
Gary W. Ervin  
Darrell G. Ewing, Sr.  
Paul Faranda  
Timothy M. Farrel1  
Molly A. Ficarra  
Arthur Thomas Fintel  
Gloria Flach  
Karin In. Flanagan  
Frank Flores  
Jonh B. Foley III  
Douglas L. Fontaine Jr  
William H. Forster  
Ann R. Fortenberry  
Darryl M. Fraser



Sidney E. Fuchs  
Roger U. Fujii  
Bradley Furukawa  
Mark R. Gagen  
Bill Li. Gallas  
Bruce R. Gerding  
Nelson Gibbs, Jr.  
Emmitt E. Gibson  
Thomas K. Glennan III  
John C. Golombeck  
James R. Goodrich  
Clark Graham  
Jeffrey D. Grant  
Katherine A. Gray  
Otto J. Guenther  
Robert L. Gunter  
Larry Harrell  
David S. Harvey  
Michael J. Hateley  
Richard L. Haver  
Jimmie R. Haygood  
Maureen P. Heath  
Robert W. Helm  
Teno L. Henderson  
Christopher M. Hernandez  
Jerome L. Hetrick  
Robert Hinson  
Raphael S. Holder  
Francis K. Holian  
James R. Hupton  
Cynthia L. Hyland  
Robert P. Iorizzo  
Cheryl L. Janey  
Mark A. Jendzejec  
Suzanne F. Jenniches  
Carl O. Johnson  
Craig L. Johnson  
John C. Johnson  
Thomas H. Johnston  
Thomas V. Jones  
Chares L. Jones  
Jill S. Kale  
Michele Y. Kang  
Clayton K. Kau  
Alene G. Kaufman  
John Kavanaugh  
Gaston Kent  
Robert W. Klein  
Marsha Klontz  
Lisa V. Kohl  
Keith C. Krantz  
Donald H. Kump  
Richard L. Lapado  
Lawrence J. Lanzillotta  
Jack A. Lautenschlager  
Taylor W. Lawrence  
Michael W. Lennon  
William G. Lese  
Robert A. Lindeman

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James J. Lindenfelser  
Alexander C. Livanos  
Jeremiah R. Madigan  
Paul A. Marchisotto  
Kenneth L. Mars  
Frank C. Marshall Jr  
James Martin  
John J. Mazach  
Gary W. Mc Kenzie  
Robert J. Mc Nulty  
Bernard P. Mc Vey  
Patricia M. McMahan  
Timothy McMahan  
Mike J. Mcvey  
Robert Merchant  
John L. Messmore  
Paul K. Meyer  
Linda A. Mills  
Robert K. Mitchell  
William M. Mitchell  
Dan Montgomery  
Arnold P. Moore  
Corey S. Moore  
Frank W. Moore  
Stephen C. Movius  
Matthew J. Mulherin  
John H. Mullan  
Diane Murray  
Albert F. Myers  
James M. Myers  
David A. Nagy  
David Nastase  
Margaret L. Nelson  
Robert E. Nelson  
Lance G. Newquist  
Barbara A. Niland  
Todd A. Norwood  
Charles H. Noski  
Edward J. Nowacki  
Rosanne P. O'brien  
James R. O'neill  
Janis G. Pamiljans  
Travis Wood Parker  
Robert Pattishall  
Joseph G. Penarczyk  
George W. Perkins  
Steven R. Perkins  
Michael C. Petters  
George R. Petteys Jr.  
Anthony D. Piazza  
George E. Pickett  
Carolyn Pittman  
James F. Pitts  
Ralph K. Pope  
Everett H. Pratt Jr  
Christine C. Reynolds  
Barry L. Rhine  
Frederick L. Ricker  
Jan G. Rideout  
Kerry D. Rines  
Robert M. Roberts  
Hubert E. Robinson  
Paul M. Robinson



Gerard Roccanova  
Salvatore M. Romano  
Thomas E. Romesser  
David S. Rosener  
James L. Sanford  
Richard S. Schenk  
Kraig H. Scheyer  
Richard F. Schmaley  
Gregory A. Schmidt  
Kent R. Schneider  
Kevin T. Sculley  
Sonja F. Sepahban  
Scott J. Seymour  
Stuart Shea  
Michael Sheehan  
Thomas W. Shelman  
John E. Shephard Jr  
David A. Shrum  
Jeffrey S. Shuman  
Neil G. Siegel  
Mary A. Simmerman  
Ronald Smith  
Wylie B. Smith Jr  
Robert B. Spiker  
Vicki E. Spira  
Scott D. Stabler II  
David F. Stafford  
Craig Staresinich  
John R. Stavlo  
Rebecca A. Stewart  
Dwight C. Streit  
Stephen H. Strom  
William O. Studeman  
Pamela J. Sullivan  
Sally A. Sullivan  
James B. Tapp, Jr.  
Joseph Taylor  
Hugh E. Taylor  
Philip E. Teel  
Burks W. Terry  
Steven D. Timmerman  
Thomas W. Tomlinson  
Michele Toth  
Ivory E. Tucker  
Mark A. Tucker  
Richard A. Underhill  
Mark Ureda  
David B. Vandervoet  
William Varner  
Thomas E. Vice  
Charles H. Volk  
Christopher Waln  
Charles B. Wande  
Robert A. Waters  
David W. Whiddon  
James J. White  
Roy C. Whites  
Donald C. Wilhelm  
David T. Williams

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Linda M. Williams  
Thomas L. Williams  
Kenneth E. Wilson  
Veasey W. Wilson  
James W. Winchester  
Donald C. Winter  
Richard T. Witton, Jr.  
Georetta A. Wolff  
Thurston E. Womble  
Sandra J. Wright  
John H. Young, Jr.  
George R. Yount  
Stephen D. Yslas  
Marty Zelman  
Carol J. Zierhoffer  
Ian Ziskin  
David W. Zolet

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

*Authorized Representative* /s/ Robert Hamburger

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ENDORSEMENT

Policy Period NOVEMBER 01, 2004 to NOVEMBER 01, 2005  
Effective Date NOVEMBER 01, 2004  
Policy Number ( 05 ) 7952-68-99  
Insured VICE PRESIDENTS, NON OFFICERS & RETIREES  
OF NORTHROP GRUMMAN CORPORATION  
Name of Company CHUBB CUSTOM INSURANCE COMPANY  
Date Issued NOVEMBER 18, 2004  
\$2,000,000 LIMIT OF LIABILITY  
\$2,000,000 UNINSURED/UNDERINSURED MOTORISTS PROTECTION

Terry J. Anderson  
Curt E. Armbruster  
Harry Armen, Jr.  
Kent T. Attridge  
Gregory Ashby  
Steven C. Babb  
John J. Ball  
David C. Beard  
Russell J. Bercier  
Denny J. Beroiz  
David A.  
Richard J. Boak  
Jennifer R. Boykin  
Louis A. Bozzella  
Jeffrey A. Brody  
Robert M. Broton  
Kenneth R. Brown  
Edward G. Bughman  
Michael J. Butchko  
James A. Byrne  
Joseph M. Cagnazzi  
Douglas E. Champion  
William E. Carty  
Frank Catalfamo  
John J. Charland  
Daniel S. Cockroft  
Thomas Conroy  
Jeffrey J.  
Ramon P. Dasal  
Robert C. Davis  
James M. Dean  
Dario Deangelis  
Kim L. Dismuke  
Robert Doleman  
Nimesh Doshi

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Michael W. Elliot  
Craig Ellis  
Mark Feldman  
Peter Fera  
Alfred J. Ferrari  
Scott M. Freber  
Chester D. Freeze  
Joseph C. Garone  
Dennis Gauci  
Elizabeth R. Gomez  
Harry M. Graves Jr  
Richard J. Gregor  
Karyn A. Greenfield  
Marco N. Gulotta  
Anthony C. Guma Jr  
Edward G. Halloran  
William C. Haub  
Harry H. Heimple  
William P. Hickman  
Gary A. Hogarth  
Robert A. Huebner  
Frank M. Ioli  
Leona Karbowski  
Cheryl S. Kariya  
Jonh T. Kenney  
Jonathon S. Korin  
Stanley Kwong  
Ronald J. Langietti  
Maris Lapins  
Michale V. Leahy  
Stanley Lee  
Kenneth A. Lehman  
Yu-Ping Liu  
Michael A. Lotito  
Eugene J. Lowe  
Joseph F. Lucente  
Palmer A. Marcantonio  
Roland P. Marquis  
Anthony G. Marrocco  
Richard W. Mattern  
William Mc Connell  
Timothy S. McKnight  
Richard A. Milburn  
Lucy Mineghino  
Lorraine R. Murray  
Edward L. Naro  
William T. Ober li  
John Michael Patrick  
R. M. Peak  
Albert A. Pisani  
Nataline F. Piscitelli  
Terry W. Prosser  
Michael R. Prueter  
Harry Quandt  
Mark A. Rabinowitz  
Mark A. Rhoades  
Gary P. Roehrig  
Donna I. Rumph  
Shari M. Sachs  
Carol C. Schmitt  
Robert J. Schutte  
Gary F. Serio  
Alfred J. Serrano



LOGO

Shabbir A. Shad  
Richard D. Shea  
James M. Sims  
Steven A. Sloan  
Colleen C. Smith  
Mary A. Solana  
Harris Sperling  
Gordon R. Stewart  
Marilyn J. Stewart  
Jeffrey A. Stoy  
David H. Strode  
John Stumpf  
Stanley R. Swenson, Jr.  
Malcolm S. Swift  
Richard L. Tallman  
John B. Thompson, Jr.  
Deborah A. Thurman  
Douglas I. Timmer  
Patricia A. Tisone  
Charles Y. Tomita  
John Urbanski  
Louise Ussery  
George F. Wagner  
David S. Weil Jr  
Thomas J. Weir  
David W. Werkheiser  
Glen A. West  
Charles T. Williams  
Roger B. Williams  
Thomas R. Wilson  
Douglas E. Wood  
Thomas H. Zehner

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

*Authorized Representative* /s/ Robert Hamburger

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**Endorsement**

*Policy Period* NOVEMBER 01, 2004 To NOVEMBER 01, 2005  
*Effective Date* NOVEMBER 01, 2004  
*Policy Number* (05) 7952-68-99  
*Insured* VICE PRESIDENTS, NON OFFICERS & RETIREES  
OF NORTHROP GRUMMAN CORPORATION  
*Name of Company* CHUBB CUSTOM INSURANCE COMPANY  
*Date Issued* NOVEMBER 18, 2004

**THIS POLICY IS SUBJECT TO THE FOLLOWING ENDORSEMENT:**

Compliance With Applicable Trade Sanctions

This insurance does not apply to the extent that trade or economic sanctions or other laws or regulations prohibit us from providing insurance.

All other terms and conditions remain unchanged.

A handwritten signature in black ink that reads "Robert Hamburger". The signature is written in a cursive, flowing style.

*Authorized Representative*

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**Endorsement  
Compliance With  
Applicable Trade  
Sanctions**



ENDORSEMENT

Policy Period                   NOVEMBER 01, 2004 to NOVEMBER 01, 2005  
Effective Date                 NOVEMBER 01, 2004  
Policy Number                 ( 05 ) 7952-68-99  
Insured                         VICE PRESIDENTS, NON OFFICERS & RETIREES  
                                      OF NORTHROP GRUMMAN CORPORATION  
Name of Company               CHUBB CUSTOM INSURANCE COMPANY  
Date Issued                    NOVEMBER 18, 2004

INTERNATIONAL RESIDENTS PRIMARY REQUIRED UNDERLYING LIMIT ENDORSEMENT

It is agreed that with respect to the Named Insured residing outside of the United States, the required primary underlying insurance limits of liability shall be the same limits of liability as shown in the coverage summary, except for those Named Insured residing in a country that does not provide the required primary underlying insurance limits of liability. In these countries the Named Insured will be required to obtain the maximum limits of liability available for all coverage shown on the Coverage Summary under the required primary underlying insurance.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

*Authorized Representative* /s/ Robert Hamburger

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ENDORSEMENT

Policy Period                   NOVEMBER 01, 2004 to NOVEMBER 01, 2005  
Effective Date                 NOVEMBER 01, 2004  
Policy Number                 ( 05 ) 7952-68-99  
Insured                         VICE PRESIDENTS, NON OFFICERS & RETIREES  
                                      OF NORTHROP GRUMMAN CORPORATION  
Name of Company               CHUBB CUSTOM INSURANCE COMPANY  
Date Issued                    NOVEMBER 18, 2004

ANNUAL PREMIUM ADJUSTMENT CLAUSE

It is agreed that this policy is written with a deposit premium to be adjusted on either each policy anniversary or at policy expiration. The premium will be adjusted on the basis of the difference between the total number of participants at inception and the actual number of participants at each anniversary. This difference is to be multiplied by fifty (50%) of the annual rate per participant, resulting in either an additional or return premium.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

*Authorized Representative* /s/ Robert Hamburger



**Endorsement**

*Policy Period* NOVEMBER 01, 2004 to NOVEMBER 01, 2005  
*Effective Date* NOVEMBER 01, 2004  
*Policy Number* (05) 7952-68-99  
*Insured* VICE PRESIDENTS, NON OFFICERS & RETIREES  
OF NORTHROP GRUMMAN CORPORATION  
*Name of Company* CHUBB CUSTOM INSURANCE COMPANY  
*Date Issued* NOVEMBER 18, 2004

**California Service  
Of Suit Clause**

**THIS POLICY IS SUBJECT TO THE FOLLOWING ENDORSEMENT:**

It is agreed that in the event of the failure of the Company hereon to pay any amount claimed to be due hereunder, the Company hereon, at the request of the Insured, will submit to the jurisdiction of a court of competent jurisdiction within the United States of America. Nothing in this condition constitutes or should be understood to constitute a waiver of the Company's rights to commence an action in any court of competent jurisdiction in the United States or to remove an action to a United States District Court or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

It is further agreed that service of process in such suit may be made upon James V. Lalor, 801 S. Figueroa Street, Suite 2400, Los Angeles, CA 90017-5556, or his nominee, and that in any suit instituted against any one of them upon this policy, the Company will abide by the final decision of court or of any appellate court in the event of an appeal.

The above-named is authorized and directed to accept service of process on behalf of the Company in any such suit and/or upon the request of the Insured to give a written undertaking to the insured that it or they will enter a general appearance upon the Company's behalf in the event such a suit shall be instituted.

Further, pursuant to any statute of any state, territory or district of the United States of America, which makes provision therefore, the Company hereon hereby designates the Superintendent, Commissioner or Director of Insurance, Secretary of State or other officer or officers specified for that purpose in the statute of his or their successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Insured or any beneficiary hereunder arising out of this contract of insurance, and hereby designate James V. Lalor, or his nominee, as the person to whom the said officer is authorized to mail such process or a true copy thereof.

All other terms and conditions remain unchanged.

Authorized Representative /s/ Robert Hamburger



## PRIVACY POLICY AND PRACTICES

**THIS NOTICE IS BEING SENT TO THE POLICYHOLDER OF AN INSURANCE POLICY. IT DESCRIBES CHUBB'S POLICY FOR HANDLING CERTAIN PERSONAL INFORMATION OF ITS INDIVIDUAL CUSTOMERS.**

Chubb has been serving the insurance needs of our customers for more than a century. To continue to provide innovative products and services that respond to your insurance needs, Chubb collects certain personal information about you, which is described below in **The Personal Information We Collect**. At Chubb, we respect the privacy of our customers. Chubb's personal information handling practices are regulated by law, and this Privacy Policy describes those practices.

### **Chubb's Privacy Policy**

**The Personal Information We Collect.** Chubb collects personal information about you and the members of your household to conduct business operations, provide customer service, offer new products, and satisfy legal and regulatory requirements.

We may collect the following categories of information about you from these sources:

- Information from you directly or through your agent, broker, or, automobile assigned risk plan, including information from applications, worksheets, questionnaires, claim forms or other documents (such as name, address, driver's license number, and amount of coverage requested).
- Information about your transactions with us, our affiliates or others (such as products or services purchased, claims made, account balances and payment history).
- Information from a consumer reporting agency (such as motor vehicle reports).
- Information from other non-Chubb sources (such as prior loss information and demographic information).
- Information from visitors to our websites (such as that provided through online forms and online information collecting devices known as "cookies"). Chubb does not use "cookies" to retrieve information from a visitor's computer that was not originally sent in a "cookie".
- Information from an employer, benefit plan sponsor, benefit plan administrator or master policyholder for any Chubb individual or group insurance product that you may have (such as name, address and amount of coverage requested).

**The Personal Information We Share.** Chubb may disclose the personal information we collect to service, process, or administer business operations such as underwriting and claims, and for other purposes such as the marketing of products or services, regulatory compliance, the detection or prevention of fraud, or as otherwise required or allowed by law. These disclosures may be made without prior authorization from you, as permitted by law.

**Sharing Personal Information With Others.** Chubb may disclose the personal information we collect to affiliated and non-affiliated parties for processing and servicing transactions, such as reinsurers, insurance agents or brokers, property and automobile appraisers, auditors, claim adjusters, third party administrators and, in the case of group insurance, employers, benefit plan sponsors, benefit plan administrators or master policyholders. For example, Chubb may disclose personal information to our affiliates and other parties that perform services for us such as customer service or account maintenance. Specific examples include mailing information to you and maintaining or developing software for us. Chubb may also disclose personal information to nonaffiliated parties as permitted by law. For example, we may disclose information in response to a subpoena, to detect or prevent fraud, or to comply with an inquiry or requirement of a government agency or regulator.

**Sharing Personal Information With Service Providers or for Joint Marketing.** Chubb may disclose the personal information we collect to agents and brokers so that they can market financial products and services and to service providers who perform functions for us. Any such disclosure is required to be subject to an agreement with us that includes a confidentiality provision. We do not disclose personal information to other financial institutions with which we may have joint marketing arrangements; however, we reserve the right to do so in the future, subject to the other financial institution entering into an agreement with us that includes a confidentiality provision.

**Confidentiality and Security of Personal Information.** Access to personal information is allowed for business purposes only. The people who have access to personal information, including employees of Chubb and its affiliates, and non-employees performing business functions for Chubb, are under obligations to safeguard such information. Chubb maintains physical, electronic, and procedural safeguards to guard your personal information.

**Personal Health Information.** Under certain circumstances, we also collect personal health information about our customers, such as information regarding an accident, disability or injury, for underwriting or claim purposes. Chubb does not disclose your personal health information to others for the purpose of marketing to you unless we have your express consent.

**Personal Information of Former Customers.** Chubb's personal information privacy policy also applies to former customers.

**Changes in Privacy Policy.** Chubb may choose to modify this policy at any time. We will notify customers of any modifications at least annually.

**Definitions.**

“Chubb” means the following companies on whose behalf this notice is given:

Chubb & Son Inc.  
Chubb & Son Inc. (of Illinois)  
Chubb Custom Insurance Company  
Chubb Custom Market, Inc.  
Chubb Indemnity Insurance Company  
Chubb Insurance Company of New Jersey  
Chubb Lloyds Insurance Company of Texas  
Chubb Multinational Managers, Inc.  
Chubb National Insurance Company  
Executive Risk Indemnity Inc.  
Executive Risk Specialty Insurance Company  
Federal Insurance Company  
Great Northern Insurance Company  
Northwestern Pacific Indemnity Company  
Pacific Indemnity Company  
Quadrant Indemnity Company  
Texas Pacific Indemnity Company  
Vigilant Insurance Company

“Customer” and “you” mean any individual who obtains or has obtained a financial product or service from Chubb that is to be used primarily for personal, family or household purposes. This notice applies to customers only.

“Personal information” means non-public personal information, which is defined by law as personally identifiable financial information provided by you to Chubb, resulting from a transaction with or any service performed for you by Chubb, or otherwise obtained by Chubb. Personal information does not include publicly available information as defined by applicable law.

**Chubb Group of Insurance Companies  
Chubb Custom Market Department  
Attention: Privacy Inquiries  
25 Independence Boulevard**

## NORTHROP GRUMMAN CORPORATION SUBSIDIARIES

Address for all subsidiaries is:

c/o NORTHROP GRUMMAN CORPORATION  
 Office of the Secretary  
 1840 Century Park East  
 Los Angeles, California 90067

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Ownership Percentage</u>
Northrop Grumman Systems Corporation (formerly Northrop Grumman Corporation)	Delaware	100%
Newport News Shipbuilding Inc.	Delaware	100%
Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.)	Ohio	100%

The company has additional operating subsidiaries, which considered in the aggregate or as a single subsidiary, do not constitute a significant subsidiary.

All above listed subsidiaries have been consolidated in the company's consolidated financial statements.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-100180, 333-103429, 333-107734 and 333-121104 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290 and 333-77056 on Form S-3; and Registration Statements Nos. 333-40862, 333-54800 and 333-83672 on Form S-4 of our reports dated March 1, 2005, relating to the financial statements and financial statement schedule of Northrop Grumman Corporation and management's report of the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Northrop Grumman Corporation for the year ended December 31, 2004.

Deloitte & Touche LLP  
Los Angeles, California  
March 1, 2005



**POWER OF ATTORNEY IN CONNECTION WITH THE  
2004 ANNUAL REPORT ON FORM 10-K**

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of NORTHROP GRUMMAN CORPORATION, a Delaware corporation, does hereby appoint W. BURKS TERRY and JOHN H. MULLAN, and each of them as his or her agents and attorneys-in-fact (the "Agents"), in his or her respective name and in the capacity or capacities indicated below, to execute and/or file the Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "Report") under the Securities Exchange Act of 1934, as amended (the "Act"), and any one or more amendments to any part of the Report that may be required to be filed under the Act (including the financial statements, schedules and all exhibits and other documents filed therewith or constituting a part thereof) and to any part or all of any amendment(s) to the Report, whether executed and filed by the undersigned or by any of the Agents. Further, each of the undersigned does hereby authorize and direct the Agents to take any and all actions and execute and file any and all documents with the Securities and Exchange Commission (the "Commission"), which they deem necessary or advisable to comply with the Act and the rules and regulations or orders of the Commission adopted or issued pursuant thereto, to the end that the Report shall be properly filed under the Act. Finally, each of the undersigned does hereby ratify each and every act and documents which the Agents may take, execute or file pursuant thereto with the same force and effect as though such action had been taken or such document had been executed or filed by the undersigned, respectively.

This Power of Attorney shall remain in full force and effect until revoked or superseded by written notice filed with the Commission.

IN WITNESS THEREOF, each of the undersigned has subscribed these presents this 1st day of March 2005.

/s/ RONALD D. SUGAR

Chairman of the Board, Chief Executive Officer, President and  
Director (Principal Executive Officer)

**Ronald D. Sugar**

/s/ JOHN T. CHAIN, JR.

Director

**John T. Chain, Jr.**

/s/ LEWIS W. COLEMAN

Director

**Lewis W. Coleman**

/s/ J. MICHAEL COOK

Director

**J. Michael Cook**

/s/ VIC FAZIO

Director

**Vic Fazio**

/s/ PHILLIP FROST

Director

**Phillip Frost**

/s/ CHARLES R. LARSON

Director

**Charles R. Larson**

/s/ PHILIP A. ODEEN

Director

**Philip A. Odeen**

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/s/ AULANA L. PETERS

Director

---

**Aulana L. Peters**

/s/ KEVIN W. SHARER

Director

---

**Kevin W. Sharer**

/s/ JOHN BROOKS SLAUGHTER

Director

---

**John Brooks Slaughter**

/s/ CHARLES H. NOSKI

Corporate Vice President, Chief Financial Officer and Director  
(Principal Financial Officer)

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**Charles H. Noski**

/s/ SANDRA J. WRIGHT

Corporate Vice President and Controller (Principal Accounting  
Officer)

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**Sandra J. Wright**

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

I, Ronald D. Sugar, Chairman, Chief Executive Officer and President, certify that:

1. I have reviewed this report on Form 10-K 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: March 1, 2005

/s/ **Ronald D. Sugar**

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Ronald D. Sugar  
Chairman, Chief Executive Officer and President

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

I, Charles H. Noski, Corporate Vice President and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-K 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: March 1, 2005

/s/ **Charles H. Noski**

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Charles H. Noski  
Corporate Vice President and Chief Financial Officer

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

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-K for the period ending December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald D. Sugar, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-15(e)/15d-15(e) 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: March 1, 2005

*/s/* **Ronald D. Sugar**

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Ronald D. Sugar  
Chairman, Chief Executive Officer and President

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

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-K for the period ending December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles H. Noski, 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 13a-15(e)/15d-15(e) 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: March 1, 2005

/s/ **Charles H. Noski**

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Charles H. Noski  
Corporate Vice President and Chief Financial Officer